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Hearings, v. 24-24. Brief, v. 21A. 1962.

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# Royal Commission on Banking and Finance

The Canadian Life Insurance Officers Association.

Hearings  
held at  
Ottawa

Vol.  
24

Date.  
JULY 9 1962



Official Reporters  
J. J. Nethercut and R. J. Young  
Toronto, Ont.







Nethercut & Young  
Toronto, Ontario

- 2338 -

Ottawa, Ontario,  
Monday, July 9th, 1962.

--- At 9.50 A ROYAL COMMISSION ON BANKING

AND FINANCE

SUBMISSION OF THE CANADIAN LIFE  
-----  
INSURANCE OFFICERS ASSOCIATION

Hearings held at Ottawa,  
Ontario, on Monday,  
July 9th, 1962.

APPARANCES  
-----

Mr. E. N. Rieder, President, The Mutual  
Life Assurance Co. of Canada,  
and President of this

THE COMMISSION ion

Mr. J. T. Bryden, Vice-President and General  
The Honourable Dana Harris Porter, American  
Chief Justice of Ontario, Life Insurance Co., and  
Toronto, Ontario, Immediate Past-Chairman  
of this Association and

Mr. W. Thomas Brown, M.B.E. of its Special  
Investment Dealer, matches on Banking and  
Vancouver, British Columbia

Mr. G. L. Mr. James Douglas Gibson, O.B.E. Manufacturers  
Banker Life Insurance Co.  
Toronto, Ontario

Mr. A. Ross Foynt, President, The Imperial Life  
Mr. Gordon L. Harrold Insurance Co. of Canada  
Agriculturalist

Mr. G. T. West, Calgary, Alberta, Manager for Canada,  
The Standard Life Assurance Co.

Mr. Paul H. Leman

Mr. E. R. Alexa Corporation Executive, Finance,  
Montreal, Quebec Life Assurance Co. of  
Canada.

Mr. John C. MacKeen

Mr. A. H. Lemme Corporation Executive, President and Treasurer,  
Halifax, Nova Scotia Life Assurance Co.

Mr. H. A. Dr. W. A. Mackintosh Financial Vice-President,  
Vice-Chancellor Manufacturers Life  
Queen's University Insurance Co.  
Kingston, Ontario

Mr. W. J. McCarthy, Associate Treasurer,  
----- Life Assurance Co. of  
Canada.

Mr. H. A. Hampson - Secretary

Mr. E. H. Crawford Assistant Treasurer,  
The Canadian Life Insurance Co.

Mr. Gilles Mercure - Joint Secretary



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Chief Justice of Ontario  
Toronto, Ontario - Chairman

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Investment Dealer  
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.  
Banker  
Toronto, Ontario

Mr. Gordon L. Harold  
Agriculturalist  
Calgary, Alberta

Mr. Paul H. Ieman  
Corporation Executive  
Montreal, Quebec

Mr. John C. MacKeen  
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Halifax, Nova Scotia

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Nethercut & Young

Toronto, Ontario

- 2339 -

Ottawa, Ontario,  
Monday, July 9th, 1962.

--- At 8.50 A.M. the hearing commenced.

SUBMISSION OF THE CANADIAN LIFE  
INSURANCE OFFICERS ASSOCIATION

APPEARANCES

Mr. E. A. Rieder,	President, The Mutual Life Assurance Co. of Canada, and President of this Association
Mr. J. T. Bryden,	Vice-President and General Manager, North American Life Assurance Co., and Immediate Past President of this Association and Chairman of its Special Committee on Banking and Finance
Mr. G. L. Holmes	President, The Manufacturers Life Insurance Co.
Mr. A. Ross Poyntz	President, The Imperial Life Assurance Co. of Canada
Mr. G. T. Westwater,	Manager for Canada, The Standard Life Assurance Co.
Mr. E. R. Alexander	Vice-President, Finance, Sun Life Assurance Co. of Canada.
Mr. A. H. Lemmon	Vice-President and Treasurer, The Canada Life Assurance Co.
Mr. H. A. Rapsey	Financial Vice-President, The Manufacturers Life Insurance Co.
Mr. W. J. McCarthy,	Associate Treasurer, Sun Life Assurance Co. of Canada.
Mr. E. H. Crawford	Assistant Treasurer, The Canada Life Assurance Co.





Ottawa, Ontario.

SUBMISSION OF THE CANADIAN LIFE

ASSOCIATION

MEMBERS

Mr. E. A. Rieder,	-	President, The Mutual Life Assurance Co. of Canada and President of this Association
-------------------	---	--

Mr. J. E. Rieder,  
 Manager, North American Life Assurance Co., and Immediate Past President of this Association and Chairman of its Special Committee on Banking and Finance.

Mr. G. L. Holmes	-	President, The Manufacturers Life Insurance Co.
------------------	---	---

Mr. A. Ross Poyntz  
 - President, The Imperial Life Assurance Co. of Canada

The Standard Life Assurance Co.

Mr. E. B. Alexander  
 - Vice-President, Western Sun Life Assurance Co. of Canada.

Vice-President and Treasurer  
 The Canada Life Assurance Co.

Sun Life Assurance Co.

Assis and Treasurer



1 Mr. J. N. Falkner - Associate Investment Officer,  
2 Prudential Insurance Co. of  
3 America.

4 Mr. John A. Tuck, Q.C. - Managing Director and General  
5 Counsel, The Canadian Life  
6 Insurance Officers Association

7 Mr. James B. Clinton - Investment Department, North  
8 American Life Assurance Co.

9 Mr. Frank C. Dimock - Secretary of the Association,  
10  
11 -----

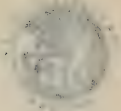
12 THE CHAIRMAN: I call the meeting to order.

13 Today we have a submission from the Canadian Life  
14 Insurance Officers Association. I understand that  
15 Mr. Rieder will open the discussion.

16 I may say that we have all read with very  
17 great interest the brief which had been filed with  
18 us by your Association and it is indeed a very  
19 comprehensive and illuminating brief. We appreciate  
20 very much the great amount of work which must have  
21 been put into its preparation. We are sure it will be  
22 of very great assistance to us.

23 Now, I will ask Mr. Rieder to begin. If  
24 any of you gentlemen wish to remain seated while  
25 addressing the Commission it is quite all right.

26 MR. RIEDER: Thank you very much, I will  
27 take advantage of your kind offer. My name is E. A.  
28 Rieder, and I am president of the Mutual Life  
29 Assurance Company of Canada. I am appearing before  
30 the Commission this morning as president of the  
Canadian Life Insurance Officers Association, a  
voluntary organization consisting of 100 companies  
in the life insurance business in Canada. The



Mr. Frank C. Dimock

Mr. A. A. Hook

Insurance Officers Association  
Counsel, The Canadian Life

American Life Assurance Co.  
Investment Department, Boston

Secretary of the Association

Mr. Frank C. Dimock

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MR. RIEDER: Thank you very much, I will take advantage of your kind offer. My name is E. A. Rieder, and I am president of the Mutual Life

I am appearing before





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Toronto, Ontario

1 Association provides a forum for the examination  
2 and consideration of the problems of the procedure  
3 of the companies, the procedure followed by these  
4 companies in the past and to make recommendations  
5 to its member companies which they are free to  
6 accept or object.

7           These 100 companies have in force in Canada  
8 \$50 billion in life insurance representing about  
9 99 per cent of the total amount of life insurance  
10 in force to Canadians. These amounts cover nine  
11 million Canadians of every particular status in  
12 Canada and include \$8 $\frac{1}{2}$  billion in investments and  
13 reinvestments each year amount to approximately  
14 \$1-3/4 billion.

15           My responsibility is to introduce to you  
16 the representatives of our Association particularly  
17 those who have been closely involved in the preparation  
18 of our submission. They are prepared to answer  
19 the questions which the Commission may wish to  
20 direct to us.

21           The Chairman of the Special Committee which  
22 is appointed to prepare the submission and its  
23 chief architect is Mr. J. T. Bryden, Vice-President  
24 and General Manager of the North American Life  
25 Assurance Company.

26           We believe our Association has been singularly  
27 fortunate to have Mr. Bryden's knowledge of the  
28 Canadian financial system available to us. He will  
29 introduce our submission and act as our chief spokesman.  
30



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1                   The names of the members of our special  
2 committee which was charged with the duty of  
3 preparing this brief appear in the appendix and  
4 six of these members are with us this morning plus  
5 the secretary.

6                   I would now like to introduce to you my col-  
7 leagues and in addition to Mr. Bryden who is, by  
8 the way, the immediate past president of the Life  
9 Insurance Officers Association, is Mr. G. L. Holmes,  
10 the president of the Manufacturers Life Insurance  
11 Company. Will you signify by raising your hands  
12 as I call your names?

13                   Mr. A. Foss Poyntz, president, The Imperial  
14 Life Assurance Company of Canada on my immediate  
15 left, Mr. G. T. Westwater, manager for Canada of  
16 the Standard Life Assurance Company in Montreal,  
17 Mr. A. H. Lemmon, vice-president and treasurer,  
18 The Canada Life Assurance Company of Toronto.  
19 Mr. Hugh A. Rapsey, Financial vice-president, The  
20 Manufacturers Life Insurance Company, Toronto.  
21 Mr. W. J. McCarthy, Associate Treasurer, Sun Life  
22 Assurance Company of Canada in Montreal, Mr. E.  
23 H. Crawford, Assistant Treasurer, The Canada Life  
24 Assurance Company, Toronto. Mr. J. N. Falkner,  
25 Associate Investment Officer, The Prudential  
26 Insurance Company of America, Toronto, Mr. John A.  
27 Tuck, Q.C., Managing Director and General Counsel,  
28 The Canadian Life Insurance Officers Association.

29                   In addition we have here Mr. James B. Clinton  
30





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The Canada Life Assurance Company of Toronto.

Mr. Hugh A. Rappey, financial vice-president, The  
Mr. W. J. McCarthy, Associate Treasurer, Sun Life

Associate Investment Officer, The Prudential  
Insurance Company of America, Toronto, Mr. John A.



1 of the Investment Department of the North American  
2 Life in Toronto and Mr. Frank C. Dimock, Secretary  
3 of the Association. Both of these latter two had  
4 the responsibility for the physical preparation of  
5 the submission.

6 Before Mr. Bryden takes over, may I say  
7 how welcome the deliberations of this Commission  
8 have been to our industry, particularly in view  
9 of the stresses and strains which have become  
10 apparent in Canadian financial affairs during the  
11 last few years. The life insurance industry  
12 has always been an important factor in the Canadian  
13 financial system, and we are vitally concerned with  
14 that system's health and efficiency. As an  
15 Association we have been happy to provide you with  
16 information about our industry and its activities  
17 which will assist you in your most important task.

18 Now, the information provided in our sub-  
19 mission deals primarily with the federally registered  
20 life insurance companies but includes information  
21 on the provincially chartered companies wherever  
22 available, but does not include the fraternal benefit  
23 societies.

24 Our brief has been arranged into five main  
25 sections plus an introductory page and a summary  
26 section on blue paper.

27 The first is a general prescription of the  
28 life insurance business, the second section is a  
29 more detailed description of the business from the  
30



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section on life insurance

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life insurance industry and its importance to the

Canadian economy and the role of the life insurance

industry in the Canadian financial system

and the role of the life insurance industry in the

Canadian financial system





standpoint of savings, the third section is an even more intensive description of the investment operation, section four is a consolidation of the Association companies' views on fiscal and monetary policy and finally, the Associations companies' views on the organization of the capital market in Canada.

Now, I would like to turn this introduction over to Mr. Bryden who will make the main presentation.

THE CHAIRMAN: Thank you, Mr. Rieder.

MR. BRYDEN: Mr. Chairman, this brief was filed with the Commission in June and since it has received your attention, nothing would be gained by reading all or really any part of it at this time. In its preparation we have tried to bear in mind the Commission's frame of reference, and the rather exhaustive list of questions or subjects indicating areas of your special interests which were received from your staff. We have tried in this submission to indicate who we are, what we do, why we do what we do and what we think about some aspects of fiscal and monetary policy and also the operations of the capital market.

In summary we suggest first of all that the Commission might consider whether the prohibitions in the insurance acts against the investing of life insurance funds in the shares of another life company may not have militated against the retention of ownership of Canadian life insurance companies in Canada.

We suggest that the Commission may wish to consider, in the context of the capital market generally,



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1 the existing limits and the present standards for  
2 the year-end valuation of assets that are contained  
3 in the present legislation.

4 We suggest that the Commission might consider,  
5 in the light of the continuing supervision to which  
6 the life insurance companies are subjected, whether  
7 uninsured pension plans and investment vehicles through  
8 which individual accumulation under "registered re-  
9 tirement savings plans" should not be the subject  
10 of supervision of similar character and purpose.

11 We also observe that the services of the so-  
12 called bond jobber or the formation of a bond exchange  
13 would not, at this time, be particularly useful, in  
14 our opinion.

15 We observe that to the extent that municipal  
16 governments cannot borrow directly, some form of  
17 pooling arrangement through provincial sponsorship  
18 may be the only effective way of adding the additional  
19 credit to allow access to the capital market.

20 We observe that privately financed development  
21 corporations participated in by large groups of  
22 investors might be a practical way of surmounting  
23 the difficulties involved in financing new and high  
24 risk companies.

25 We also observe that if it were deemed desirable  
26 to supply N.H.A. mortgage insurance to existing houses,  
27 the loan should be limited to a bona fide purchaser  
28 of a single house who intends to reside in it and the  
29 loan limited to, say, 80 per cent of a lending value  
30 and subject to an amortization period that recognizes





the year-end valuation of assets and liabilities in the present legislation.

We suggest that the Commission might consider in the light of the continuing supervision to which the life insurance companies are subjected, whether uninsured pension plans and investment vehicles through which individual accumulation under "registered retirement savings plans" should not be the subject of supervision of similar character and purpose.

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We also observe that if it were deemed desirable to have a separate insurance fund for the purpose of a bond life purchaser



1 fully the age of the house, its location and remaining  
2 economic life.

3 Then, in the brief, we express our belief  
4 that there is the highest need for the continuous  
5 coordination of monetary, fiscal, debt management  
6 and exchange policies and state that no one policy,  
7 and particularly monetary policy, can in the long  
8 run make up for shortcomings in other policies.

9 We express our belief that government must  
10 accept ultimate responsibility for monetary policy,  
11 but that the Bank of Canada should be accorded wide  
12 latitude in initiation and implementation until such  
13 time as the views of government and bank management  
14 cannot be reconciled.

15 We express our belief that the Bank of Canada  
16 should carry out its monetary policy through varying  
17 the money supply and thus influencing interest rates  
18 and liquidity. To the extent that distortions appear  
19 from time to time and correctives are deemed necessary  
20 such problems should be treated by government through  
21 temporary regulations rather than by attempting to  
22 bring non-bank financial intermediaries under some  
23 form of continuing relationship with the central bank.  
24 We believe, however, that in peace time at least,  
25 such direct controls should be considered only as a  
26 last resort. We express our belief that the Bank of  
27 Canada should give the fullest possible explanation  
28 of what it has done, should keep its emerging views  
29 and intent constantly before its Minister, but other  
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1 than that should be able to carry on its operations  
2 in reasonable anonymity.

3 We express the belief that any restrictions  
4 whereby life insurance companies would be required  
5 to invest a certain portion of their assets in any  
6 particular category of investment would not be in  
7 the best interest of either policyholders or the  
8 nation. Such restrictions would tend to lower  
9 arbitrarily the investment returns of those particular  
10 savers.

11 We express our belief that reasonable price  
12 stability along with a high level of employment and  
13 income should be the two major objectives of public  
14 policy. Just as combatting recession requires the use  
15 of a broad arsenal of weapons, so combatting inflation  
16 requires an equally broad attack not only on the  
17 monetary front but in fiscal matters and in economic  
18 policy generally.

19 We express opposition to proposals for the  
20 addition of the government operated compulsory pension  
21 plan providing graduated benefits on top of our  
22 present Old Age Security Plan. The use of existing  
23 pension facilities, subject possibly to minimum  
24 requirements of portability and benefit level, would  
25 continue to accumulate pools of private savings for  
26 investment through the capital market.

27 Now, Mr. Chairman, we have so organized  
28 ourselves that certain members of our delegation have  
29 more intimate knowledge of certain phases of our  
30 presentation and if I may, I should like from time to



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1 time to direct your questions to one or more of my  
2 associates or ask them to supplement answers already  
3 given.

4 We shall be most happy to try to answer  
5 any questions that arise as a result of the brief  
6 we have submitted.

7 THE CHAIRMAN: Thank you, Mr. Bryden.

8 COMMISSIONER GIBSON: Mr. Chairman and  
9 gentlemen, I would like to ask you a few open questions  
10 about the structure of the life insurance industry  
11 and I would like to make a general comment as well  
12 which comes up in this context.

13 Studying your brief indicates pretty clearly  
14 that the practices as between one company and another  
15 are by no means the same, investment practices, for  
16 example. That being the case and since our greatest  
17 interest is in finding out how you find market  
18 influence and how you fit into the financial system  
19 we would very much appreciate <sup>knowing</sup> /whether, when you speak,  
20 you are speaking from your own particular experience  
21 so we can get a clear reason as to why it is done in  
22 this way and how you respond in different circumstances;  
23 in other words, as you have pointed out yourselves  
24 in the brief, in a number of places the practices are  
25 quite different in some respect, and where they are  
26 we would like to know as much as we can about why they  
27 are and how the response occurs. To start out, I  
28 would like to ask you a few questions about the nature  
29 and structure of the industry. For instance, you  
30 cover in your brief the federally chartered and



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THE CHAIRMAN: Thank you, Mr. Byrd.

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and structure of the industry. For instance, you  
cover in your brief the federally chartered and



1 provincially chartered companies. Is there any  
2 particular striking difference in these two types  
3 of company? I notice, for example, provincial  
4 companies, although very much smaller, have, in  
5 the period which you indicate, grown a great deal  
6 faster. Is this significant?

7 MR. BRYDEN: Mr. Poyntz.

8 MR. POYNTZ: I should think a general answer  
9 Mr. Chairman, would be, that the provincially regis-  
10 tered companies probably operate more locally than  
11 the federal ones and are probably younger companies  
12 and therefore growing more rapidly for that reason.  
13 I think a good many, for example, of the provincially  
14 chartered companies operate in the province of Quebec,  
15 perhaps entirely.

16 COMMISSIONER GIBSON: Is there any particular  
17 difference between large and small companies and the  
18 way they are growing in the last 20 or 25 years? Do  
19 the larger ones tend to get larger or have there been  
20 a lot of new small ones?

21 MR. POYNTZ: There have not been a lot of  
22 new small ones. I think we have that in the brief,  
23 the number that have entered the business recently.  
24 Twenty-five Canadian companies have entered the life  
25 insurance field between 1935 and 1960.

26 COMMISSIONER GIBSON: Has there been any  
27 tendency for the industry to develop in larger units  
28 through other phases of the life insurance business?

29 MR. POYNTZ: I do not believe that any particular  
30 range of size has been capturing a bigger share of the

the period which you indicate, known as a "lean year".

MR. CHAIRMAN: Mr. Poyntz.

MR. POYNTZ: I should think a general answer

Mr. Chairman, would be, that the provisionally

and therefore growing more rapidly for that reason.

I think a good many, for example, of the provisionally

perhaps entirely.

CONFIDENTIALITY: Is there any particular

distinction between large and small companies and

way they are growing in the last 20 or 25 years? Do

the larger ones tend to get larger or have their share

a lot of new small ones?

MR. POYNTZ: There have not been a lot of

new small ones. I think we have that in the past,

the number that have entered the business recently.

Twenty five Canadian companies have entered the 1950

instances filed between 1950 and 1960.

through other phases of the insurance business?

MR. POYNTZ: I do not believe that any particular

of the new companies is being applied to the





1 market. As you point out, the smaller ones have  
2 maintained their position, the provincially registered  
3 ones and have again covered about one per cent of the  
4 market, I think it is, to five per cent, in this  
5 period 1935 to 1960. The larger companies are growing  
6 but probably not at the same rate of growth. Growing  
7 the same absolutely, but not at a greater rate.

8 COMMISSIONER GIBSON: What about the distinction  
9 between Canadian owned, British owned, American and  
10 other companies? Are there any characteristics of  
11 each group on the present ownership? Are there  
12 differences in asset management, for example, that  
13 you would say are characteristic of British companies,  
14 American companies and Canadian companies?

15 MR. POYNTZ: Yes, I think there are some  
16 differences in asset management that could be found  
17 in some of the British companies. Mr. Westwater  
18 represents one of them and I think probably he  
19 might be able to answer that question.

20 MR. WESTWATER: Mr. Chairman, I would refer  
21 you to Section 5 where we point out the marked  
22 differences in distribution of assets and a different  
23 investment policy between the British and Canadian  
24 companies --

25 COMMISSIONER GIBSON: This is as between  
26 the Canadian operations of the British companies and  
27 Canadian companies? Now, you do point out that the  
28 British companies' practices in the United Kingdom  
29 are different.  
30



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MR. WESTWATER: Mr. Chairman, I would refer you to Section 5 where we point out the marked differences in distribution of assets and a different investment policy between the British and Canadian companies --



1 MR. WESTWATER: Yes sir, that is an important  
2 point. I should say that within the limits of the  
3 federal restrictions and regulations here the British  
4 companies would follow a similar line of policy in  
5 Canada. There are, of course, limits.

6 COMMISSIONER GIBSON: In other words, they  
7 would tend to hold more common stocks than Canadian  
8 companies?

9 MR. WESTWATER: Yes.

10 COMMISSIONER GIBSON: Is there anything in  
11 particular about American companies and the way  
12 they operate here that differentiates them in any way?

13 MR. POYNTZ: Well, for their Canadian business  
14 specifically they must follow the same line as the  
15 Canadian companies. There are a good many U.S. companies  
16 operating here, mainly an investment operation rather  
17 than a life insurance business and, of course, they  
18 would not necessarily have the same investment  
19 management for that. Possibly Mr. Falkner would like  
20 to reply. He represents one of these United States  
21 companies.

22 MR. FALKNER: I cannot add much to what already  
23 has been said. I think it would be a fair statement  
24 that we operate investmentwise in a manner similar to  
25 our Canadian competitors, possibly with a little  
26 different emphasis in the Canadian structure of  
27 Prudential in the type of investment we favour. So  
28 far as Prudential is concerned it is generally our  
29 mortgage investments that are at the moment most  
30 attractive.





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I restrictions and regulations here the British  
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1 COMMISSIONER GIBSON: You put more emphasis  
2 on mortgages relative to bonds?

3 MR. FALKNER: In Canada, yes, and this I would  
4 say is purely on account of or mainly on account of  
5 our organization. We are best equipped for this  
6 particular type, I feel, to participate in that  
7 form of investment.

8 MR. POYNTZ: I am sorry, Mr. Chairman, could  
9 I refer back to the previous question of yours dealing  
10 with the rates of growth of various types of companies?  
11 It is covered in paragraph numbered 3.56:

12 " Competition within the industry is  
13 further indicated by the decline in the  
14 share of life insurance in force held by  
15 the larger companies. For example, in  
16 1935, the five largest companies held  
17 53% of the business in force; in 1960  
18 these same companies held 48%. The  
19 next five companies had on their books  
20 24% of the total life insurance in force  
21 in 1935, in 1960 these same five companies  
22 held 19% of the total. In 1935 the largest  
23 share held by any one company was 16½%;  
24 in 1960 the largest company, which had been  
25 third largest in 1935, had 12%."

26 I am sorry to interrupt your chain of questioning.

27 COMMISSIONER BROWN: This would happen anyway  
28 if more companies entered the field. Obviously, the  
29 percentages are going to go down.  
30



any is purely on account of, or mainly on account of  
our organization. We are best equipped for this  
particular type. I feel the particular type of this

I refer back to the previous question of yours dealing  
with the rates of growth of various types of companies?  
It is covered in paragraph numbered 3.26:

"Competition within the industry is  
increasing by the decline in the  
share of life insurance in force held by  
the larger companies. For example, in  
1935 the five largest companies held  
the business in force; in 1960  
the same companies held  
next five companies had on their books  
24% of the total life insurance in force  
in 1935. In 1960 these same five companies  
held 19% of the total. In 1935 the largest  
share held by any one company was 15%;  
in 1960 the largest company, which had been  
third largest in 1935, had 12%."

chain of questioning.  
COMMISSIONER BROWN: This would happen anyway  
more companies entered the field.  
advantages are going to go down.





1 MR. POYNTZ: That is true.

2 COMMISSIONER BROWN: Have you figures for the  
3 relative rise in growth within that same grouping?

4 MR. POYNTZ: I do not think we have.

5 MR. RAPSEY: We have some absolute figures  
6 here. We have not quite worked out the relative rate  
7 of growth, for example, a company that stood at the  
8 top in 1935 had \$1 billion on the average. At the  
9 end of 1960 it had \$5.3 billion. If you drop down  
10 to, let us say, the tenth company at the end of 1935  
11 they had \$200 million in force, and at the end of  
12 1960 they had \$950 million in force; in other words,  
13 about five times in one case and about four and a  
14 quarter times in the tenth case, but at the same time  
15 you will find variations either way within the ten.

16 THE CHAIRMAN: I assume that none of those  
17 twenty-five companies have failed during that period.  
18 Have there been any amalgamations in that group?

19 MR. BRYDEN: One, I think. One company  
20 took over another in 1960.

21 MR. RAPSEY: Not in this group of ten.

22 MR. BRYDEN: No, not in the top group of  
23 ten.

24 Mr. Chairman, may I go back to one question  
25 that Mr. Gibson raised and I think the answer on the  
26 average is found at page 80 of the brief where we  
27 list in table 5.f, life insurance assets held in  
28 Canada by federally registered companies and it  
29 is broken down as to the Canadian companies, the British  
30 companies and the United States companies and other  
companies and again percentages are given



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list in table 2.7, life insurance assets held in



1           The only thing apropos is that as far as  
2 Canadian companies' assets, they are all shown as book  
3 values, whereas non-resident companies' assets are shown  
4 at market values, and that has some relationship to the  
5 common stock holdings.

6           As far as your Canadian companies are concerned,  
7 I think the market values of the stocks that were held  
8 at that point were just about double the book values  
9 that are shown. I think that sets forth the differences  
10 in the investment policy of the average of the various  
11 companies. It does mask the differences in the investment  
12 policies of individual companies which go to make up  
13 that average.

14           COMMISSIONER GIBSON: That does bring out a  
15 couple of points that were mentioned. The British  
16 companies hold a relatively high proportion of the  
17 common stocks, and this shows the American and other  
18 companies holding an extraordinarily high percentage of  
19 corporate bonds. Would you care to comment on that?

20           MR. FAULKNER: It is difficult to relate these  
21 figures to our own position and the position we might  
22 find ourselves occupying in the tables. Why it should  
23 be that way I cannot answer.

24           MR. BRYDEN: I think Mr. Lemmon may have some  
25 information on that subject.

26           MR. LEMMON: Mr. Chairman, I think part of the  
27 explanation in this regard was touched upon  
28 on by Mr. Faulkner in respect to the type of organization.  
29 In other words, to do mortgage business you have to have  
30 in this country a branch organization. For a company



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1 comping into Canada in the first instance and for many  
2 years after, the volume of business it has available  
3 does not make worthwhile the setting up of a mortgage  
4 organization. To get the maximum yield on funds without  
5 going into the mortgage field, the corporate bond area  
6 is perhaps one of the most attractive to go into. Mr.  
7 Faulkner's company and several of the other large ones  
8 do go into the mortgage business through an organization,  
9 but many of the non-resident companies have not seen  
10 their way clear to do that. Therefore this is sort of  
11 the residual area, corporate bonds.

12 The Chairman has called my attention to the  
13 fact that some of the American companies are very highly  
14 geared to do a direct placement business with corporations.  
15 They have carried that over into this market using their  
16 American organization to do it, which also contributes  
17 to the higher percentage of mortgage bonds.

18 COMMISSIONER GIBSON: There must be a number  
19 of large ones that do this on a big scale.

20 MR. LEMMON: That is one large one which does  
21 it on a very substantial scale.

22 COMMISSIONER GIBSON: We have been talking a  
23 bit about the characteristics of different owned companies  
24 in assets management. How about the type of business  
25 they take on? Do British companies have different  
26 characteristics than Canadian companies? Do they sell  
27 particular kinds of insurance more than Canadian  
28 companies, or is the mixture different? Do the American  
29 companies tend to specialize in particular fields?

30 MR. BRYDEN: Mr. Chairman, maybe I stand subject



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MR. BRYDEN: Mr. Chairman, maybe I stand subject





1 to correction here, and if I need to be corrected I  
2 trust someone will do so. I would think that on balance  
3 the normal life insurance business of the United States  
4 companies, of the Canadian companies, and to some extent  
5 the British companies, are reasonably well the same.  
6 There are some companies within the different groups  
7 that tend to specialize to a greater extent on annuity  
8 business rather than the insurance business. Some  
9 others are not carrying the same proportion of annuity  
10 business, but on balance, I would think that on the whole  
11 the mix is not too different. Mr. Westwater, would you  
12 agree with that or not?

13 MR. WESTWATER: I would agree with that answer,  
14 yes.

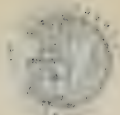
15 COMMISSIONER GIBSON: In other words the kind  
16 of business is not particularly related to the place of  
17 ownership or the origin of ownership?

18 MR. BRYDEN: No, your kind of business is  
19 really related to the market in this country for your  
20 particular product.

21 COMMISSIONER GIBSON: Is there a good deal of  
22 specialization among the companies regardless of where  
23 they are owned? Do some specialize heavily in one type  
24 of insurance and others in other types?

25 MR. POYNTZ: Not generally speaking, Mr.  
26 Chairman.

27 MR. BRYDEN: Again I think you have to tailor  
28 your product to the market, and on balance pretty  
29 generally you are going to get the same type of mixture  
30 of business that you do with the exception that some



to consider here, and it is not to be considered.

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MR. WESTWATER: I would agree with that answer.  
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MR. BRYDEN: Again I think you have to tailor your product to the market, and on balance pretty generally you are going to get the same type of mixture of business that you do with the exception that some



1 companies do specialize to a greater extent in annuity  
2 and group pension business than others.

3 COMMISSIONER GIBSON: You are speaking of the  
4 larger companies. I am wondering if there are any  
5 small companies for instance non-life companies, that  
6 go into the life business in order to supplement their  
7 own business and thereby specialize in a certain area.

8 MR. POYNTZ: This has not happened in Canada  
9 very much.

10 MR. RIEDER: There is one difference that should  
11 be mentioned I think in answering your question.

12 There are four large companies operating in  
13 Canada which do what was formerly called industrial  
14 business; that is, going around to collect premiums  
15 weekly or monthly at the house. That class of buyer  
16 is a different type of person than is being sold by  
17 the majority of companies. However, that type of  
18 business is becoming less and less significant with  
19 the rising standard of living even among the industrial  
20 workers.

21 COMMISSIONER GIBSON: How about new companies  
22 starting up, do they tend to go into the general business,  
23 or tend to specialize in some particular operation?

24 MR. RIEDER: I think we all do all kinds of  
25 business with the exception of accident and sickness  
26 insurance. Of course, perhaps half the companies are  
27 in that field and half are not. As far as life insurance  
28 and annuities are concerned, we are all selling every-  
29 thing.

30 COMMISSIONER GIBSON: Some do more group than





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COMMISSIONER GIBSON: You are speaking of the

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1 others. Would a new company starting up go into group  
2 seriously, for example?

3 MR. POYNTZ: There has been an example of that.  
4 A company has gone into the group field extensively right  
5 from the beginning. I do not think you can generalize  
6 really. I think also it can be said that a new small  
7 company would not likely do much annuity business.

8 COMMISSIONER GIBSON: Thinking again still of  
9 the characteristics of the industry, what about profitability?  
10 Do the larger companies tend to be more profitable than  
11 the smaller or vice versa, or are some kinds of business  
12 more profitable than other kinds?

13 MR. BRYDEN: Have we got an actuary present?

14 MR. POYNTZ: Mr. Holmes could explain that.

15 COMMISSIONER GIBSON: Perhaps I should go  
16 a little further. Do companies tend to concentrate  
17 their activities in more profitable kinds of business?

18 MR. HOLMES: I would say Mr. Gibson that the  
19 larger companies are bound I think to have very wide-  
20 spread organizations which do a general business. Most  
21 of the smaller companies enter that field when they go  
22 into it because they are entering usually with small  
23 men in their individual sales programmes. We try to  
24 find the most profitable fields, of course, but you  
25 have to take a look at your selling business and find  
26 the most profitable field. If you think there is more  
27 profit in one kind than in another you make a more  
28 extensive effort in your selling with the result that  
29 you probably lose the profitability, but you get the  
30 business.



...to be a very good thing to have in the business.

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1           COMMISSIONER GIBSON: I was just wondering  
2 about the group field in the business. I have heard  
3 that it is a pretty competitive field but companies seem  
4 to be very vigorously competing in it even though it  
5 may not be the most profitable kind of business. There  
6 seems to be a general tendency to try to get in it in  
7 every department.

8           MR. HOLMES: Taking our own company as an  
9 example, we have not been very active in the group  
10 business, although the eagerness of the others to get  
11 into it may make us think we have made a mistake.

12           COMMISSIONER GIBSON: You put quite a lot of  
13 emphasis on volume in the insurance business. Do you  
14 do this just for the sake of getting more volume on  
15 your books?

16           MR. HOLMES: I think we may tend to do that  
17 a little in that as long as I have been in the business  
18 volume has been one of the main criterion of size.  
19 I think this is losing that effect. At one time the  
20 business was pretty uniform and volume was a pretty  
21 fair indication of what the company was doing. Today  
22 that is not the case, and I think that is recognized.

23           COMMISSIONER GIBSON: You are tending to look  
24 more for premium income rather than the amount of  
25 insurance in force?

26           MR. HOLMES: Yes.

27           COMMISSIONER LEMAN: Mr. Gibson, are we going  
28 to take it for granted that group business is less  
29 profitable? Why don't we ask a question in that regard.



COMMISSIONER GIBSON: I was just wondering

about the field in the business, I have heard

that it is a pretty competitive field but companies seem to be very vigorously competing in it even though it may not be the most profitable kind of business. There seems to be a general tendency to try to get in it in every department.

MR. HOLMES: Taking our own company as an

example, we have not been very active in the group business, although the eagerness of the others to get into it may make us think we have made a mistake.

COMMISSIONER GIBSON: You put quite a lot of

emphasis on volume in the insurance business. Do you do this just for the sake of getting more volume on your books?

MR. HOLMES: I think we may tend to do that

a little in that as long as I have been in the business volume has been one of the main criterion of size.

I think this is losing that effect. At one time the business was pretty uniform and volume was a pretty fair indication of what the company was doing. Today that is not the case, and I think that is recognized.

COMMISSIONER GIBSON: You are tending to look

more for premium income rather than the amount of insurance in force?

COMMISSIONER LEMAN: Mr. Gibson, are we going

to take it for granted that group business is less profitable? Why don't we ask a question in that regard?



1 Is it or is it not, after you consider selling costs,  
2 more or less profitable?

3 COMMISSIONER BROWN: Perhaps they would  
4 each like to put in sealed and separate answers.

5 MR. POYNTZ: I should think we could answer  
6 that question by saying that group business is one of  
7 the most competitive fields of our operation, and for  
8 that reason margins of profit are very slim, in the  
9 group life field particularly.

10 COMMISSIONER LEMAN: The selling costs are  
11 lower?

12 MR. POYNTZ: Yes, they are.

13 COMMISSIONER LEMAN: If we consider that  
14 division of business right back to the question of growth  
15 which Mr. Gibson was questioning you about, what are  
16 the factors that tend to limit the rate of growth  
17 of an insurance company?

18 MR. POYNTZ: I think really it is a function  
19 of manpower. The size and success with which a company  
20 develops its sales force really determines its rate  
21 of growth.

22 COMMISSIONER LEMAN: There are no technical  
23 limitations such as accounting in respect to reserve  
24 requirements?

25 MR. HOLMES: There are technical limits  
26 particularly to group that tends to cut down the  
27 surplus and higher earnings, and that is why costs  
28 are higher than your growth. They tend to be that way  
29 but they are not necessarily that way.

30 COMMISSIONER LEMAN: These technical things



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COMMISSIONER LEWIS: These technical limits



1 have not in fact limited the growth of any of the  
2 members of your association?

3 MR. HOLMES: I think at times they have  
4 limited us to some extent, but not a great deal. I  
5 would say normally no, you grow really as fast as you  
6 can on a reasonable basis.

7 MR. RIEDER: Mr. Holmes is speaking from the  
8 standpoint of a fairly large established company. I  
9 think it is true that there is no practical limitation  
10 on the rate of growth for technical reasons in setting  
11 up reserves and so on. However, for a new company  
12 that might be true; that is a small company.

13 COMMISSIONER GIBSON: The reason being that  
14 an insurance company does not like to see its surplus  
15 reduced to more than a modest amount in any given year,  
16 is that right?

17 MR. RIEDER: That is right, it has to keep  
18 some surplus, but you can eliminate surpluses entirely  
19 in small companies.

20 COMMISSIONER GIBSON: Because of the heavy  
21 cost of the first few years of writing policies, and  
22 because of the initial cost?

23 COMMISSIONER BROWN: Can you give us a rule  
24 of thumb in this regard?

25 MR. BYDEN: Subject to correction, Mr.  
26 Chairman, and I have about three actuaries here, it  
27 has also seemed to me, in a going concern, with the  
28 existing insurance in force it is producing surplus  
29 and earnings fast enough to let you fix a growth rate  
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1 to a growth rate that goes much beyond that then you  
2 have what we call a surplus strain. In other words  
3 it tends to bear down on the net operating revenue  
4 which is produced in that area. That may not be  
5 significant in itself, but the mere effect of the bearing  
6 down does sometimes tend to have some effect on your  
7 dividend distribution to your existing policyholders  
8 and tends to bring that out at a level which might  
9 conceivably produce inequity to existing policyholders  
10 against the new ones. That has sort of been my rule  
11 of thumb in this regard. However, I speak subject to  
12 correction.

13 MR. POYNTZ: I think the only thing we might  
14 add is that there is a specific technical deterrent  
15 in the single premium annuity class of business where  
16 even for a large company the reserve requirements are  
17 stringent and quite often result in a liability being  
18 assumed that could be as large or larger than the  
19 single premium received. The difference, of course,  
20 will be made up by excess interest, but that has a  
21 very specific technical deterrent.

22 COMMISSIONER LEMAN: Would there be some  
23 justifiable way of accounting differently for that  
24 type of business?

25 MR. POYNTZ: It would involve changing the  
26 liability standard in the Canadian-British Insurance  
27 Companies Act. There has been some relief recently.  
28 The rate of interest allowed is now 4 per cent and it  
29 used to be  $3\frac{1}{2}$  per cent. Companies on new money can  
30 earn more than 4 per cent and can use a higher rate of



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1 interest in calculating the premiums but not a higher  
2 rate of interest in calculating their liabilities, so  
3 the liability is high relative to the earnings on  
4 premium.

5 COMMISSIONER BROWN: Do these technical factors  
6 tend to affect the type of business that a new company  
7 tries to write; for example a new company setting  
8 up, because of these technical reserve requirements  
9 on straight life insurance would then tend to try to  
10 grow faster in the group end of it rather than the straight  
11 life end of it?

12 MR. POYNTZ: A new company would normally  
13 have difficulty in the group field since they would not  
14 have a specialized group sales organization. I did  
15 mention one specific new company that did get into  
16 the group business quickly, but normally that is not  
17 the case.

18 COMMISSIONER BROWN: Is it because of the  
19 selling aspect?

20 MR. POYNTZ: Yes.

21 COMMISSIONER BROWN: But from the point of  
22 view of their accounting end of it, would there be a  
23 tendency for them to try to emphasize one type of  
24 business rather than another type because of these  
25 reserve disabilities connected with certain kinds of  
26 insurance?

27 MR. POYNTZ: I think they would tend to do  
28 what we call the normal type of life insurance business,  
29 yes.

30 MR. BRYDEN: I think, Mr. Brown, that one of





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1 the things that may happen there is that there is  
2 no doubt that there is a limit to the amount of new  
3 business that a new and small company can put on its  
4 books in any one year and still remain respectable  
5 on its balance sheet. However, I think what would  
6 happen there is, through the re-insuring facilities  
7 throughout the industry it might very well take all  
8 the new business it can sell and then, having regard  
9 to the differences in any capital and the amount of  
10 risk that it wants to assume on its own account, it  
11 might very well seed the excess business to some other  
12 carrier. I think that is one of the ways that they  
13 would tend to control their balance sheet position  
14 and the risks versus the equity that they have in it.

15 MR. POYNTZ: Mr. Chairman, I think this  
16 last discussion is fairly academic because the whole  
17 business of life insurance in Canada is so competitive  
18 that a company is usually trying to get as much  
19 business as it can rather than to limit the amount of  
20 new business that they do.

21 COMMISSIONER BROWN: That is what I wanted  
22 to know.

23 THE CHAIRMAN: What I have some difficulty  
24 in understanding is how these 25 companies, without  
25 any background and without very much of a balance  
26 sheet, have succeeded in competing with the big  
27 companies at the rate that I understand they have done.  
28 What is the reason for their success? Is it that they  
29 have tapped new areas of prospective customers by  
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1 MR. BRYDEN: I would think that they have  
2 produced the best and most competitive rates that they  
3 can and the new company is much more likely to acquire  
4 business through what you might call brokerage con-  
5 nections without doing what a lot of companies do,  
6 and that is have their own carrier life underwriter  
7 agency force. I think they might pick up bits and  
8 pieces in a fair amount. And that is one of their  
9 methods, I think, of breaking into the market and  
10 getting a fair amount of business on their books,  
11 so it is partly the method of how it is sold or through  
12 whom, rather than any particular mix in what is sold.

13 MR. RIEDER: A lot of these companies are  
14 Quebec provincial companies, are they not, which have  
15 a special field in the province of Quebec.

16 MR. BROWN: You mentioned reinsurance; are  
17 there some of those that specialize in reinsurance  
18 or do all companies?

19 MR. BRYDEN: There are specialists.

20 MR. POYNTZ: Yes, there are specialists, in  
21 reinsurance, but most -- certainly all the larger  
22 Canadian companies will do reinsurance as well.

23 MR. BRYDEN: Each company will normally have  
24 a retention limit on any one policy having regard  
25 to the total of their reserve liabilities. And,  
26 for example, I can at the moment say that ours was  
27 \$100,000 a policy and in excess of that we would  
28 reinsure the excess part with some other company  
29 and in that way you do not control the risk on  
30 individual policies and that would be common, I would

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1 say, right through the industry; in other words, each  
2 company has its own retention limits, but that does not  
3 prohibit it from writing larger policies.

4 THE CHAIRMAN: And the smaller company has  
5 the smaller risk?

6 MR. BRYDEN: Yes.

7 THE CHAIRMAN: But they still have the re-  
8 insurance facilities open to them.

9 MR. RAPSEY: The bulk of the reinsurance is  
10 passed to the companies and some of the smaller companies  
11 tend to use special reinsurance facilities but both are  
12 available and the smaller company can go to the larger  
13 company and get reinsurance.

14 MR. BROWN: Are there any Canadian companies  
15 that specialize in reinsurance?

16 MR. BRYDEN: There is one Canadian company,  
17 I think, and the rest of them pretty well are foreign  
18 companies.

19 MR. POYNTZ: The Canadian reinsurance companies,  
20 I know the name of one that does specialize in it  
21 but it is owned by foreign interests.

22 COMMISSIONER BROWN: There is none Canadian  
23 owned?

24 MR. BRYDEN: Not that we know of.

25 COMMISSIONER GIBSON: Still on the nature of  
26 the industry, you do not say very much about the foreign  
27 business of the Canadian life insurance companies in  
28 your brief, and I wonder if you care to make a comment.  
29 This is from the Canadian point of view and there may  
30 be a certain amount of money which is coming back to





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COMMISSIONER GIBSON: Still on the nature of

the industry, you do not say very much about the foreign

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be a different point of view which is coming back to



1 Canada from connections abroad.

2 Now, looking in the Bank of Canada annual  
3 statistical supplement, it shows quite substantial net  
4 annual transfers in funds from abroad on the part of  
5 twelve life insurance companies, and they include some  
6 large Canadian owned ones, and these show quite  
7 considerable transfers. It only goes up to 1960,  
8 but they show quite substantial transfers from abroad  
9 to Canada. Now, I wondered about this \$13 billion  
10 and I wonder if you would care to comment on this. This  
11 obviously isn't going to be all profit and some of the  
12 companies are utilizing some of the funds they get  
13 from abroad. Could you develop this a bit?

14 MR. BRYDEN: Possibly we can take it in stages.  
15 It is first mentioned on page 18 in paragraph 3.4  
16 and it says that there are 14 of the Canadian companies  
17 that do business outside of Canada, and at the end of  
18 1960 they had \$13 billion of life insurance in force;  
19 that equals 42 per cent of the business of those 14  
20 companies, and that the business outside, which is 70  
21 per cent, is on the lives of policyholders in the United  
22 States, 16 per cent in the United Kingdom, 2 per cent  
23 on Asians, 6 per cent on Africans and 6 per cent on persons  
24 in the Caribbean area.

25 COMMISSIONER GIBSON: We realize that your business  
26 is balanced abroad, but we are interested in the effect  
27 of the Canadian position, to what degree these funds  
28 are in Canada. These figures I quoted, would these  
29 give us a fair idea of the net operations of Canadian  
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1 balance of payment.

2 MR. BRYDEN: I think from that point of view  
3 that Mr. McCarthy may have some comment to make.

4 MR. MCCARTHY: I would say, Mr. Chairman, that  
5 this is correct, that that pretty well gives you the  
6 measure of the impact on the balance of payments which,  
7 as you see, has a positive effect in so far as Canada  
8 is concerned.

9 COMMISSIONER GIBSON: That would be part of  
10 the profits and partly the funds throughout Canada  
11 that are used?

12 MR. BRYDEN: And partly an estimation of cost  
13 on the foreign business which is incurred in Canada in  
14 your head office administration, so that is a part of  
15 it, too.

16 MR. MCCARTHY: In the last three or four years  
17 there have been, on the part of some of the Canadian  
18 companies, particularly those doing a fair sized business  
19 in the United States, a tendency to remit some portion  
20 of their surplus funds into Canada, largely on the basis  
21 of the interest rate differential and to some extent,  
22 perhaps, a concern or an awareness of the fact that U.S.  
23 taxation arrangements may take an adverse portion with  
24 regard to these surplus funds.

25 COMMISSIONER GIBSON: And the factors affecting  
26 this movement are the exchange differentials -- I mean,  
27 the interest rate and the exchange rate between Canada  
28 and the United States, or is there much movement from  
29 the sterling countries?

30 MR. MCCARTHY: To Canada?





1 COMMISSIONER GIBSON: Yes.

2 MR. MCCARTHY: As far as Canadian companies are  
3 concerned, I do not think so; as far as our company is  
4 concerned, no, but on the part of the British companies  
5 I could not say.

6 MR. BRYDEN: I think we should bear in mind,  
7 Mr. Chairman, that all the companies attempt to match,  
8 as far as possible, their assets in a particular currency  
9 and also the liabilities. In the United States, for  
10 example, assets secured from U. S. reserves, of course,  
11 are trustee'd in the States and in part I think  
12 that all of us attempt to hold a bit of a surplus over  
13 and above actual requirements. I do not believe that  
14 in the sterling area the same trusteeship prevails, but  
15 on the same basis I think all of us attempt to carry  
16 pretty well our U.K. sterling reserves in sterling  
17 currency and I think that also applies to your business  
18 in the Caribbean area, and so on, so that any movement  
19 of this kind that does occur is a very surplus type move-  
20 ment, a very marginal movement of funds across the  
21 border.

22 MR. POYNTZ: I think that this is the key to the  
23 question and that we can only talk in terms of the flow  
24 of the surplus funds and although there is substantial  
25 business done abroad by Canadian companies it will never  
26 be a big factor in the flow of funds to and from Canada  
27 because we must think only in terms of the surplus earnings  
28 and the extent of the home office operations with respect  
29 to that business.

30 COMMISSIONER GIBSON: There is a little more said





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1 in the brief on page 72 on this point, and it says  
2 that Canadian life companies have from time to time  
3 been prepared to accept some exchange risk and that  
4 the differential in interest rates appear unduly now,  
5 and that some reversal of that position occurs when  
6 the yield spread widens appreciably. Is it your  
7 suggestion that there is a certain capital flow back and  
8 forth here? Would not that be because of surplus funds?

9 MR. POYNTZ: It all has to be under surplus  
10 funds as far as United States and Canada is concerned.  
11 It has to be under surplus funds.

12 THE CHAIRMAN: Would it not be true that this  
13 paragraph, referring to the influence of exchange rates,  
14 simply does not apply to the results of your foreign  
15 business and may affect to some effect the investments  
16 arising out of Canadian business?

17 MR. BRYDEN: Yes, it could. We very deliberately  
18 used a word there, Mr. Chairman, "to purchase non-resident  
19 investments"; I do not think as far as I know that any  
20 of the companies are likely to take cash from here to  
21 put it there, but you do have a tendency, even on Canadian  
22 accounts, at times, if your yield spread is wider than  
23 normal, that you may move over and buy the investments  
24 and sometime later you may bring it back if the spread  
25 changes, but again we are still dealing on balance with  
26 very surplus funds, and there is no method of removing  
27 large amounts of Canadian assets that you are holding  
28 against your Canadian reserves over in the States and  
29 then back.

30 COMMISSIONER LEMAN: I do not want to labour this



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and sometime later you may bring it back if the spread

changes, but again we are still dealing on balance with

very surplus funds, and there is no method of removing

large amounts of Canadian assets that you are holding

against your Canadian reserves over in the States and

COMMISSIONER LEHMAN: I do not want to labour this





1 point too much, but do not you think that if you read  
2 paragraph 5.44 that on the face of it it seems to be  
3 contradictory; it seems to say that one would expect the  
4 exchange risk and the threat of interest rates is unduly  
5 narrow, and it would seem to make more sense if it were  
6 exactly the opposite.

7 MR. MCCARTHY: I think the writer had in mind  
8 the interest rate spread between Canada to the United  
9 States, which historically is wide in favour of Canada,  
10 but when it narrows down to where you get American rates  
11 almost at the same as Canadian rates, you might go out  
12 at a narrow spread and come back at a wider spread, or  
13 at a time when the spread is restored to something like  
14 it was restored to before.

15 COMMISSIONER LEMAN: It would be the opposite  
16 for movements between sterling countries?

17 MR. LEMMON: Yes.

18 COMMISSIONER LEMAN: You cannot take the  
19 paragraph just as it is.

20 MR. BRYDEN: No, but if, for example, the  
21 normal rate spread between Canada to the United States  
22 may be a half per cent in yield, the point at which  
23 that was a quarter spread you might very well move to the  
24 United States and at the point which it was three-quarters  
25 spread you probably would come back here.

26 COMMISSIONER LEMAN: Would that mean that the  
27 insurance companies in general have views on what the  
28 spread should be or what the normal spread is?

29 MR. BRYDEN: We know what the historical spread  
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1 has been.

2 COMMISSIONER BROWN: On this question of foreign  
3 assets, I notice that the Canadian companies have \$13  
4 billion in life insurance in force outside of Canada  
5 and the foreign companies have something like \$14 billion  
6 in Canada and the Canadian-held assets abroad are \$2.8  
7 billion as against the foreign assets in Canada of \$ 2.2  
8 million. Does this reflect a difference in the policies  
9 they are writing? In other words, foreign companies  
10 tending to write more group policies than life policies?

11 MR. HOLMES: The group policy as a rule, but  
12 the Canadian will have done more abroad than the foreign  
13 companies have done here.

14 COMMISSIONER BROWN: So, there is a difference  
15 in policy type written by the foreign companies as  
16 against Canadian companies?

17 MR. POYNTZ: There is a difference in the markup  
18 which they ask. For example, Canadian companies are  
19 not extensively in the British market where the type of  
20 insurance selling is higher premium, a high premium  
21 type and therefore higher reserves than possibly it would  
22 be in the case of Canada or the United States, so that  
23 if a foreign company does business in Canada it is doing  
24 it in our market at a lower premium level than we do,  
25 say, in the British markets.

26 COMMISSIONER BROWN: But 70 per cent of the  
27 Canadian business is in the American market?

28 MR. POYNTZ: Yes. I think the group answer  
29 is quite pertinent there, that the U.S. companies do  
30 a large group business in Canada and they produce relatively



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MR. POYNTZ: Yes. I think the group answer

is quite pertinent there, that the U.S. companies do

a large group business in Canada and they produce relatively



1 low assets.

2 COMMISSIONER MACKINTOSH: What about industrial  
3 insurance; do not the American companies sell a fairly  
4 large amount of industrial insurance?

5 MR. RIEDER: But it is a very small factor on  
6 the total amount of insurance in force; the age of the  
7 business has some bearing on the ratio of the reserve  
8 to the face amount of the policy.

9 COMMISSIONER GIBSON: This brings us back to  
10 the point I was going to get at earlier; it is the  
11 amount of funds that the company nets as a result of  
12 all the activities, and shouldn't there be deductions  
13 for foreign companies who are sending funds out of Canada,  
14 and this would include three of the large foreign owned  
15 companies, but in view of the fact that there were a  
16 shade more in Canada of the foreign controlled companies  
17 as against insurance written outside of Canada by Canadian  
18 controlled companies, it does seem a little surprising  
19 to have as big an influence of funds to net to Canada  
20 as the figures would suggest. It would suggest something  
21 like \$20 million a year net, and it seems to me that  
22 the companies are working in a more profitable area of  
23 insurance.

24 MR. POYNTZ: I think that some of that inflow is  
25 for the investment of, say, U.S. companies with respect  
26 to their U.S. business. Their Canadian investment accounts  
27 for the U.S. business.

28 COMMISSIONER GIBSON: Maybe that has not been  
29 moving quite so strongly in the last year.

30 COMMISSIONER BROWN: Is there any difference in



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moving quite so strongly in the last year.

COMMISSIONER BROWN: Is there any difference in





1 taxation for a foreign company operating in Canada as  
2 against a Canadian company operating in Canada?

3 MR. POYNTZ: Not with respect to the Canadian  
4 business of each.

5 MR. BROWN: I would like to move into a slightly  
6 different area but still within the structure of this.  
7 One of the most obvious or most striking developments  
8 in recent years has been the mutualization going on in  
9 some of the largest companies. What was the motivation  
10 for this?

11 MR. BRYDEN: Well, Mr. Holmes, would you like  
12 to answer that one?

13 MR. HOLMES: I think the motivation was for  
14 various reasons, but they came to one point, and I  
15 think in our own company -- I will speak of it because  
16 I know it more thoroughly -- in our own company almost  
17 half the stock was held in one hand, you might say,  
18 and it was a question of that particular party deciding  
19 that they did not want the price that was quoted on  
20 the stock, they did not want to hold that much in one  
21 hand; it was in a State and rather than have that control  
22 of the company go to unknown sources, we were very anxious  
23 to have it mutual.

24 COMMISSIONER BROWN: How about other companies,  
25 because there are five of them?

26 MR. BRYDEN: Mr. Lemmon?

27 MR. LEMMON: Mr. Chairman, in our case the  
28 situation was not quite the same as in the Manufacturers  
29 Life. After the legislation was passed at Ottawa, a  
30 committee of the policyholders of our company set up to



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MR. LEMMON: Mr. Chairman, in our case the

of the policyholders of our company set up to



1 inquire as to whether or not it was a profitable transaction  
2 for the policyholders of the company to acquire the stock  
3 and after exhaustive analysis they arrived at a figure  
4 at which they felt that the acquisition of the stock  
5 of our company was in the interests of the policyholders.  
6 In other words, we met with some of the largest stock-  
7 holders to see if, in fact, the stock could be acquired  
8 in that area and experience proved that it could  
9 be so acquired and was so acquired. The prime motive  
10 there was that for the long haul we felt it would be  
11 in the interests of the participating policyholders if  
12 the stock could be acquired at that price. If it had  
13 been somewhat higher it probably would not have been  
14 done.







1 MR. BRYDEN: As you know, we went through  
2 this process in 1931. We were one of the original  
3 mutualizers, but the point at that time is there was  
4 danger of the control of our company moving outside,  
5 and we at that point had a provision in our original  
6 charter which allowed the redemption of our guarantee  
7 fund, and I think it was 1931 that, in effect, our  
8 participating policyholders acquired that guaranty  
9 fund and we became a mutual company at that time.

10 COMMISSIONER BROWN: You mentioned the question  
11 of avoidance of external control: In this mutualization,  
12 who has control of the company -- who has votes?

13 MR. BRYDEN: The participating policyholders.

14 COMMISSIONER BROWN: And on what basis are  
15 the votes?

16 MR. BRYDEN: Mr. Tuck, have you got the  
17 insurance Act there?

18 MR. TUCK: It is generally one vote per  
19 policyholder.

20 COMMISSIONER BROWN: It does not relate to  
21 the size of the policy?

22 MR. TUCK: In some companies it related to  
23 the size of the policy.

24 MR. BRYDEN: But pretty generally, I think  
25 it is per policyholder of a certain minimum amount.

26 MR. TUCK: I think the minimum is \$3,000.  
27 This is a case where the general Act does not give  
28 the whole picture, and charters do vary quite a bit.  
29 I think there are about eight or nine charters where  
30 there are variations from the general rule of one vote

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1 per policyholder -- isn't that so -- the general rule?

2 COMMISSIONER LEMAN: Is it per policy?

3 MR. TUCK: Every person contracted with the  
4 company for a participating policy shall be a member  
5 and entitled to vote.

6 COMMISSIONER BROWN: Should this be standard-  
7 ized, in your opinion, in the Act so that it is laid  
8 down how the control is governed of mutual companies?

9 MR. TUCK: We had a proposal to that effect  
10 under discussion with the government last year, and  
11 I think all companies were prepared to see this general  
12 rule override their charter, but there was one company  
13 which was rather anxious to maintain its special rule,  
14 and that project of unification broke down.

15 COMMISSIONER BROWN: Apparently there is  
16 almost unanimity but not quite in opinion on this --  
17 or there was. Let us carry it further: Should there  
18 be anything so that a majority of directors have to  
19 be Canadians?

20 MR. TUCK: There is now in the Act.

21 COMMISSIONER BROWN: That is in the Act, is  
22 it?

23 MR. TUCK: Yes.

24 COMMISSIONER BROWN: That a majority of  
25 directors ---

26 MR. TUCK: I think there are two rules:  
27 The majority of the board must be Canadian citizens  
28 ordinarily resident in Canada, and the second rule  
29 is that the majority of policyholders directors must  
30 also be Canadian citizens resident in Canada.



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1 COMMISSIONER BROWN: In other words, it  
2 applies to both.

3 MR. TUCK: The total board and to the policy-  
4 holders directors.

5 MR. BRYDEN: In a stock company you have both  
6 types of directors: You have stockholders directors  
7 and policyholders directors.

8 COMMISSIONER LEMAN: Is it per policy or per  
9 policyholder?

10 MR. BRYDEN: Holder.

11 COMMISSIONER LEMAN: Does each policy give  
12 a vote? If a man holds four policies in a company, does  
13 he get four votes?

14 MR. TUCK: The general rule is one vote.

15 MR. LEMMON: In our company it is one vote.

16 COMMISSIONER LEMAN: Because I have three  
17 or four proxies from one company.

18 MR. LEMMON: Yes.

19 MR. BRYDEN: It is a matter of the machining.

20 MR. LEMMON: Don't try to vote them all.

21 THE CHAIRMAN: What sort of machine -- a  
22 voting machine?

23 MR. BRYDEN: Usually it is an Addressograph  
24 or IBM.

25 COMMISSIONER BROWN: Even in a mutual company  
26 there is a distinction between participating policy-  
27 holders and ordinary policyholders?

28 MR. BRYDEN: Let us use it -- "non-participating  
29 policyholders". It is the participating that vote, not  
30 the non-participating.





THE CHAIRMAN: Now, let us go back to

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the non-participating.



1 MR. POYNTZ: I think there are exceptions  
2 to that rule.

3 MR. TUCK: I think in every company a  
4 participating policyholder is a member of the company.  
5 That is universally true. I think there are one or two,  
6 or more -- there are a few instances where non-  
7 participating policyholders are members of the company.

8 COMMISSIONER BROWN: Are these mutual  
9 companies?

10 MR. TUCK: Yes, but this is a minority.  
11 This is what happens when charters are established  
12 years ago -- over 100 years ago in some cases -- and  
13 the general statute has gradually replaced parts of  
14 these charters, but it has not replaced them all, so  
15 some of these differences still remain.

16 THE CHAIRMAN: The holder of a policy of  
17 \$100,000 would have one vote, and the holder of a  
18 policy of \$1,000 would have one vote?

19 MR. TUCK: Yes, that is the general rule.

20 MR. POYNTZ: There is usually a minimum of  
21 \$3,000 or \$4,000 required to vote.

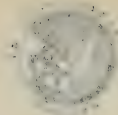
22 COMMISSIONER BROWN: This is in the company  
23 charter?

24 MR. TUCK: Yes.

25 THE CHAIRMAN: But there is nothing in the  
26 Act that would prevent a different arrangement if  
27 the company wished to amend its charter?

28 MR. BRYDEN: You have to get legislation  
29 to do that.

30 MR. TUCK: I think it may be a case of



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MR. TUCK: Yes.





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2 THE CHAIRMAN: Yes, but it is not in the  
3 Act that the one vote per holder rule is laid down?

4 MR. TUCK: In the general statute, yes,  
5 it is.

6 THE CHAIRMAN: Is it?

7 MR. TUCK: Yes, and this general statute  
8 applies except where there is a conflict with the  
9 special charter.

10 THE CHAIRMAN: The Act provides that changes  
11 can be made in the charter of the company through a  
12 special charter -- are you talking about a special Act?

13 MR. TUCK: I am sorry, I should have prefaced  
14 this by saying that all of the Canadian federal companies  
15 are created by special Act.

16 THE CHAIRMAN: I see.

17 COMMISSIONER BROWN: I would like to switch  
18 to another point. You brought out in your submission  
19 you would like to have considered the prohibition of  
20 one company owning another company in Canada. In the  
21 Act as it stands, has there been any prohibition against  
22 amalgamations?

23 MR. POYNTZ: Not in the Act as it stands,  
24 but there would have to be approval by the Superintendent  
25 of Insurance and probably other cabinet ministers as  
26 well, and it has not really been up for consideration  
27 for a good many years except the one we mentioned in 1960  
28 where a small stock company did take over the business  
29 of a much smaller mutual company.

30 We feel that the Commissioners might consider

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THE CHAIRMAN: I see. COMMISSIONER BROWN: I would like to switch to another point. You brought out in your submission you would like to have considered the prohibition of one company owning another company in Canada. In the Act as it stands, has there been any prohibition against

MR. POYNTE: Not in the Act as it stands, but there would have to be approval by the Superintendent of Insurance and probably other cabinet ministers as well, and it has not really been up for consideration for a good many years except the one we mentioned in 1940 where a small stock company did take over the business of a much smaller mutual company. We feel that the Commissioners might consider



1 this question of prohibition of a life company owning  
2 the shares of another because the same considerations  
3 apply to an extent as made it desirable to provide  
4 mutualization machinery. There is always the question  
5 of control of the Canadian companies passing outside  
6 of Canada, and, as the brief mentioned, it has happened  
7 seven times in recent years -- seven times since 1954.  
8 We feel that some of these transfers of ownership  
9 outside of Canada could probably have been prevented  
10 if the Canadian life insurance company had had the  
11 power to buy shares of another life company, and we  
12 think the safeguards should be the same as they are at  
13 present when approval must be gained for mutualization  
14 from the Superintendent of Insurance, the Minister of  
15 Finance and the Treasury Board. These same people could  
16 authorize the purchase by one life company of the shares  
17 of another to make sure that the public interest was  
18 being served.

19 COMMISSIONER BROWN: Could you give us  
20 the philosophy behind why this prohibition is in the  
21 Act?

22 MR. POYNTZ: It has been there for many  
23 years and I expect it was originally to prevent the  
24 concentration of power, but there now being so many  
25 companies in the field -- over 100 -- that there is  
26 very little danger now of concentration of power through  
27 one company acquiring the shares of another. There  
28 are only 42 Canadian stock companies, so that even if  
29 they all merged into one there would still be 80  
30 companies operating in the field in Canada. So that the



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1 original philosophy, I don't think, should hold  
2 now.

3 There is one other minor point: It could  
4 be useful for Canadian companies to own their foreign  
5 business in separate companies. At the present time  
6 that is not possible but we do run into certain  
7 jurisdictional difficulties in some of the areas in which  
8 we have been doing business, and it could be very useful  
9 to have segregated that business into a separate company  
10 rather than have it part of the whole. I might mention  
11 Cuba as a difficult area now.

12 MR. BRYDEN: And British Guiana. I think  
13 Mr. MacGregor in his annual report for 1959 went to  
14 some length to explain the Department's position  
15 relative to this matter of acquisition of other  
16 companies.

17 COMMISSIONER GIBSON: The essence of it was  
18 the point Mr. Poyntz made?

19 MR. LEMMON: Subject to correction, if my  
20 memory serves me right, Mr. MacGregor made the point  
21 if one Canadian company should acquire control of  
22 another Canadian company it was likely that the second  
23 Canadian company would pass out of existence and there  
24 would be one less carrier in the field offering policies,  
25 whereas when the control of a Canadian company is  
26 acquired by a non-resident company the Canadian company  
27 usually remains in existence as a carrier in the  
28 Canadian field and that the area of competition is not  
29 so reduced.

30 COMMISSIONER BROWN: This would not apply



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 whereas when the control of a Canadian company is  
 acquired by a non-resident company the Canadian company  
 usually remains in existence as a carrier in the  
 Canadian field and that the area of competition is not  
 so reduced.





1 to Canadian ownership of their foreign subsidiaries?

2 MR. LEMMON: No, it would not. He did not  
3 cover that in his report. It was purely the combination  
4 of two Canadian companies.

5 COMMISSIONER BROWN: Have you discussed  
6 this with him to find out his attitude?

7 MR. TUCK: We have not presented anything  
8 to the Superintendent. We are aware of his views and  
9 they are reflected in the report and also in his  
10 presentation to the Senate Committee discussing the  
11 legislation of 1961. We haven't had any formal  
12 discussions with him about it.

13 MR. BRYDEN: This matter of having the  
14 foreign subsidiaries really has not been much of a  
15 point until recently, and I think some of our thinking  
16 there has probably come up from what happened in Cuba.  
17 At the moment some of the companies operating in  
18 British Guiana are having a few problems, if you will,  
19 and, as Mr. Poyntz says, if you could handle these  
20 outside areas in a sort of a subsidiary company it  
21 might alleviate some of the problems you run into.

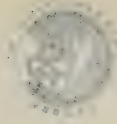
22 COMMISSIONER LEMAN: But it would be a  
23 Canadian subsidiary?

24 MR. POYNTZ: Canadian owned.

25 COMMISSIONER LEMAN: It would not be  
26 incorporated in the foreign country?

27 MR. BRYDEN: It might be.

28 COMMISSIONER GIBSON: On this matter of  
29 keeping Canadian ownership of the industry, it is your  
30 considered view that permitting a Canadian company



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COMMISSIONER GIBSON: On this matter of

keeping Canadian ownership of the industry, it is your

considered view that permitting a Canadian company



1 to own another Canadian company's shares is the most  
2 effective step that can be taken in that direction  
3 at this time?

4 MR. BRYDEN: I don't think, Mr. Gibson,  
5 that the industry has a view as such.

6 COMMISSIONER GIBSON: No, but the Canadian  
7 owned companies might have a view.

8 MR. BRYDEN: But this is something we thought  
9 of in the light of the interest in the retention  
10 of ownership in Canada as one avenue that might be  
11 explored in order to keep in Canada the ownership of  
12 some of the companies whose, for one reason or another,  
13 capital stock is available for sale, and one of the  
14 major problems, of course, is that when you do attempt  
15 to put a market value on the stock of an insurance  
16 company usually, if it is a fairly significant one,  
17 you are talking in terms of a fairly large amount of  
18 money and, as you know, sometimes you don't acquire  
19 large amounts of money in Canada half as easily as  
20 somebody in the bigger markets of the United States.

21 COMMISSIONER GIBSON: Do you think this is  
22 a significant potential problem at this time?

23 MR. BRYDEN: Well, that is difficult to say,  
24 but since 1955 in seven companies, I think, control  
25 has moved outside of Canada.

26 COMMISSIONER GIBSON: Do you think this is  
27 likely to continue or that it will expend itself?

28 MR. BRYDEN: There are five of the larger  
29 stock companies have mutualized, so it is not a problem  
30 there. It is not a problem with the mutual companies;





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1 it is not a problem with the ones that have gone outside,  
2 but there is still a significant number of stock  
3 companies in Canada and at some point, for one reason  
4 or another, that stock is likely to come up for sale.  
5 It may be succession duty reasons or something of that  
6 kind, and at that point somebody has to underwrite it.

7 COMMISSIONER BROWN: There should be no  
8 distinction between the mutual company buying out  
9 a stock company as against a stock company buying out  
10 a stock company?

11 MR. BRYDEN: I don't think it would make  
12 any particular difference. It would lead to sort of  
13 fewer companies -- bound to -- and larger companies,  
14 and that kind of concentration always does. It is  
15 just a question of which is the better.

16 COMMISSIONER GIBSON: Is this the tendency  
17 in the United States -- towards larger companies?

18 MR. BRYDEN: I don't really know as far as  
19 the United States market is concerned. Certainly,  
20 some of our Canadian companies have been acquired by  
21 companies in the United States, but they have been left  
22 to operate as Canadian companies in Canada. I am not  
23 sufficiently familiar with the United States market to  
24 answer that question.

25 MR. HOLMES: There have been continual  
26 takeovers in the United States, but in the total over-all  
27 picture it is not a big thing. There are more new  
28 companies growing up than cut down by the takeovers  
29 in the last 15 or 20 years.

30 MR. CRAWFORD: The total number of companies



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MR. CRAWFORD: The total number of companies





1 in the United States is growing quite rapidly.

2 MR. RIEDER: About 1500, isn't it?

3 MR. HOLMES: Yes.

4 COMMISSIONER LEMAN: Would foreign ownership  
5 hurt the policyholder as much with the kind of regulation  
6 there is on life insurance business in Canada?

7 MR. BRYDEN: On balance I would think it  
8 probably would not.

9 COMMISSIONER GIBSON: It is just a matter  
10 of economic control, isn't it?

11 COMMISSIONER BROWN: That is all.

12 THE CHAIRMAN: If there are no further  
13 questions on this particular subject we might adjourn  
14 for 10 minutes.

15 --- At this point a short recess was taken.

16 THE CHAIRMAN: We will now resume. Further  
17 questions?

18 COMMISSIONER BROWN: Mr. Chairman, just as  
19 we adjourned reference was made to one of the reasons  
20 for having a majority of Canadian directors to obtain  
21 economic control in Canada. This brings up the question  
22 of interlocking directorates of national organizations  
23 and national institutions. I am wondering if you can  
24 give us any comments as to the effect this has or does  
25 not have on such matters as the placing of group  
26 insurance, etc., or the investing in securities?

27 MR. BRYDEN: I think, Mr. Chairman, Mr.  
28 Lemmon has been involved in that end of the brief.

29 MR. LEMMON: I am not sure, Mr. Chairman, exactly  
30 what is behind Mr. Brown's question.



in the United States is investing in the United States.

MR. LEMMON: About 100,000,000.

MR. BRYDEN: Yes.

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Lemmon has been involved in that end of the brief.

MR. LEMMON: I am not sure, Mr. Chairman, exactly

what is meant by "interlocking directorates".



1                   COMMISSIONER BROWN: There is nothing  
2 sinister.

3                   MR. LEMMON: But there are various aspects  
4 of approach on it. As you know, a man who is a director  
5 of one life insurance company but is not a director  
6 of another and life insurance companies tend to recruit  
7 their directors from those people whom they feel can  
8 be of most value to the companies, to the policyholders  
9 from the agency point of view, from the investment  
10 point of view and from other points of view.

11                   It is perhaps inevitable under those  
12 circumstances that people who are directors of other  
13 financial intermediaries will be invited to become  
14 directors of life insurance companies seeing that the  
15 life insurance companies are national institutions  
16 and other financial intermediaries are national  
17 institutions and the experience that makes a man  
18 valuable to one national organization makes him  
19 valuable to another national organization.

20                   Having been appointed a director of a life  
21 insurance company to say that he is entirely disinterested  
22 in the sale of life insurance would be a hundred per  
23 cent not true. He is invited to become interested in  
24 the sale of life insurance. To what extent he uses  
25 his position as director of one company or director of  
26 another to influence life insurance I am not in a  
27 position to answer completely. In our own case we  
28 have group insurance on some companies of which our  
29 directors are also directors but there are plenty of  
30 others where we have not got group insurance.



COMMISSIONER BROWN: There is nothing

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of approach on it. As you know, a man who is a director of one life insurance company but is not a director of another and life insurance companies tend to recruit their directors from those people whom they feel can be of most value to the companies, to the policyholders from the agency point of view, from the investment point of view and from other points of view.

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1 As far as the investment end of the business  
2 is concerned, speaking personally I can certainly  
3 consult those directors who have knowledge and experience  
4 in certain areas when certain investments are being  
5 considered and they are asked for their best judgment  
6 affecting particular businesses. I think you would  
7 have to ask the individual directors how they solved  
8 the problem when there is a conflict of interest.  
9 I cannot answer for them. Now, is there something  
10 more on that you would like?

11 COMMISSIONER BROWN: No, I think that just  
12 about covers it.

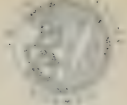
13 MR. RIEDER: Regarding conflict of interest  
14 I think a number of companies in Canada have a regular  
15 procedure which is followed. If a director has a  
16 substantial interest in the other party to any investment  
17 transaction he has to declare his interest and refrain  
18 from discussion and refrain from the decision.

19 MR. LEMMON: I think that is reasonably  
20 true throughout the industry.

21 COMMISSIONER BROWN: I am sorry, I did not  
22 quite catch the last part.

23 MR. RIEDER: If a director has a substantial  
24 interest in the other party to an investment trans-  
25 action or any officer he must declare his interest and  
26 refrain from taking part in the discussion or the  
27 decision.

28 COMMISSIONER BROWN: In other words, if  
29 an investment is being discussed in the debentures of  
30 a company in which he has a large interest he has to ---



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1 MR. RIEDER: He stands aside.

2 COMMISSINER BROWN: He does not withdraw  
3 from the meeting?

4 MR. RIEDER: No, he can listen but take no  
5 part in the discussion.

6 COMMISSIONER BROWN: And does the same  
7 apply if it is a question of somebody working out  
8 a group insurance policy in a company in which he has  
9 an interest?

10 MR. RIEDER: Group insurance is very  
11 competitive and it is usually placed on the basis of  
12 competitive rates, I think, rather than directors  
13 influencing. The same condition does not apply. In  
14 fact, we do not discuss group policies with our directors,  
15 the sale of group business. They are more interested  
16 in investments.

17 COMMISSIONER BROWN: Is there any  
18 prohibition on investments where the director has  
19 control of a company?

20 MR. BRYDEN: Mr. Brown, Sub-section (9) of  
21 Section 63 of the Act says:

22 "A company shall not lend any of its  
23 funds to a director or officer of the  
24 company or to the wife or a child of a  
25 director or officer except, in the case of  
26 a company registered to transact the business  
27 of life insurance, upon the security of  
28 the company's own policies of life insurance;  
29 nor shall a company lend any of its funds  
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MR. RICHARD: Mr. Brown, Sub-section (2) of

Section 63 of the Act says:

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1 the shares of the capital stock of the  
2 corporation are owned by a director or  
3 officer of the company or the wife or a  
4 child of a director or officer, or by any  
5 combination of such persons."

6 So there is complete prohibition under those  
7 circumstances.

8 COMMISSIONER BROWN: But if it is not  
9 controlled there is no prohibition, it is a question  
10 that he does not enter into it?

11 MR. LEMMON: Declare his interest and he  
12 does not enter into the discussion or voting.

13 COMMISSIONER HARROLD: I would like to turn  
14 to the individual you do business with rather than  
15 the company itself. In Section 4 you deal with life  
16 insurance savings and going down to paragraph 4.5 of  
17 page 34, I think it is, it says there:

18 "... annual changes in insurance  
19 saving tend to move fairly closely with  
20 movements in disposable personal income.  
21 A prolonged economic decline tends to  
22 have a relatively heavier impact on this  
23 form of saving than it does on income while  
24 on the other hand, in periods of rapid  
25 inflation, with income rising, the increase  
26 in insurance saving tends to respond more  
27 slowly."

28 There is a chart on the next page, I believe, which  
29 suggests other important time-lags in the savings  
30 category and I think later on in the brief you recognize





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1 this and say something about the inflationary trend  
2 having something to do with personal savings but would  
3 you have any information on other things that influence  
4 investments in life insurance saving as savings at the  
5 present time, changes in individuals that would suggest  
6 what does the individual consider when he makes these  
7 purchases or savings? Is it his idea as to what is  
8 going to happen as far as he is concerned or inflation,  
9 or rise in prices of investment?

10 MR. BRYDEN: That is a difficult one to  
11 get at. In the first place you have a sales force who  
12 are attempting to market the products. Certainly as  
13 far as the timing is concerned periods of recession are  
14 more difficult. Periods of expansion are relatively  
15 easy. In a period of expansion such as the time when  
16 you are having significant inflation you normally tend  
17 towards the sale, I think, of more group insurance and  
18 term insurance. There is less emphasis on those  
19 plans that have a larger sized savings element. Mr.  
20 McCarthy has had a considerable amount to do with  
21 the makeup of this table. Possibly he could supplement  
22 what I have said.

23 THE CHAIRMAN: Is that the total down into  
24 1935?

25 MR. BRYDEN: Yes.

26 MR. MCCARTHY: I think you can summarize  
27 the answer to the question of what influences the amount  
28 of savings that the individual does through life  
29 insurance by saying that it depends on three variables.  
30 The sales force, as Mr. Brown pointed out, is an



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1 important one. The rating of disposable personal  
2 income as demonstrated in the table is another one  
3 and the third one and the toughest one to try to be  
4 precise about is the one I would label expectations on  
5 the part of the individual potential buyer. His  
6 expectations fall into perhaps two categories, one,  
7 his future element of money coming in the organized type  
8 plan he is buying which is future money income in a  
9 sense and perhaps also to a lesser extent he might be  
10 influenced by his expectation as to the future life of  
11 his own disposable income. If he was optimistic on  
12 his income prospects he might be a better prospect  
13 than if he was pessimistic on his future income prospects.

14 COMMISSIONER HARROLD: And you mentioned  
15 sales force. Does that indicate that this decreases  
16 or increases from time to time in the insurance companies?

17 MR. BRYDEN: The number on the sales force?

18 COMMISSIONER HARROLD: Yes.

19 MR. BRYDEN: I do not think any of us ever  
20 decreased deliberately. You are normally attempting  
21 to expand your field force. There is a fairly high  
22 turnover as far as your agency force is concerned.  
23 Some come with you and decide they do not like the selling  
24 of life insurance as a vocation; others stay with you.  
25 On balance you would be attempting almost at all times  
26 to increase your total sales force of quality, competent  
27 life underwriters.

28 COMMISSIONER HARROLD: How about employment  
29 trends? Does this show in the statistics at all rather  
30 than disposable income?



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to increase your total sales force of quality, competent

than disposable income?



1 MR. BRYDEN: We have mentioned at one  
2 point here, I think 36, on page 18, that the life  
3 insurance industry had 45,500 full-time personnel in  
4 their service in Canada at the end of 1960. About 25,000  
5 of those were in administrative positions and approximately  
6 15,000 were full-time field representatives.

7 Now, that has expanded quite significantly  
8 since 1939. We did not have the 1935 figure but in  
9 1939 we had 19,700 people. I do not believe we have  
10 that broken down between field types and administrative.

11 COMMISSIONER HARROLD: I am sorry, maybe  
12 I did not make it quite clear. I was thinking of the  
13 employment trend in the country as a whole.

14 MR. BRYDEN: I beg your pardon.

15 MR. MCCARTHY: I should say under that  
16 heading of expectations unemployment perhaps would tend  
17 to foster in the potential policyholder a feeling of  
18 apprehension about his future income. In a high level  
19 of unemployment he would be concerned: In a low level  
20 he would not be concerned and that could have an  
21 influence.

22 COMMISSIONER GIBSON: On this table on page  
23 35 there are times when the life insurance took a larger  
24 share of the disposable income, say, in the middle of  
25 the late 1930's and during the war and just after the  
26 war but really during the war these are the highest  
27 percentages in the whole picture. These were not  
28 times of particularly good expectation. There were  
29 times when I suppose competitive factors were not strong.  
30 How do you explain this? You have a level in the 1930's





1. THE CHAIRMAN: We have heard from the

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4. their service in Canada at the end of 1960. About 25,000

5. of those were in administrative positions and approximately

6. 15,000 were full-time field representatives.

7. Now, that has expanded quite significantly

8. since 1959. We did not have the 1955 figure but in

9. 1959 we had 19,700 people. I do not believe we have

10. that broken down between field types and administrative.

11. COMMISSIONER HAROLD: I am sorry, maybe

12. I did not make it quite clear. I was thinking of the

13. employment trend in the country as a whole

14. MR. BRYDEN: I beg your pardon.

15. MR. McARTHUR: I should say under that

16. heading of expectations unemployment perhaps would tend

17. to foster in the potential policyholder a feeling of

18. apprehension about his future income. To a high level

19. of unemployment he would be concerned: In a low level

20. he would not be concerned and that could have an

21. influence.

22. COMMISSIONER GIBSON: On this table on page

23. 15 there are times when the life insurance took a larger

24. share of the disposable income, say, in the middle of

25. the late 1950's and during the war and just after the

26. war but really during the war there are the highest

27. percentages in the whole picture. These were not

28. times of particularly good expectation. There were

29. times when I suppose competitive factors were not strong

30. Now do you explain this? You have a level in the 1930's



1 and during the war which is much higher than what we  
2 have had ever since the end of the war.

3 MR. MCCARTHY: Well, during the wartime  
4 period with the lack of availability of other forms of  
5 consumption and with incomes rising very quickly and  
6 having just emerged from a period of depression people  
7 were security conscious and suddenly came into the  
8 position of being able to do something about it. That,  
9 I think, would partially explain it.

10 In the case of the depression period I think  
11 the ratio might be a bit misleading. I think you have  
12 to be careful in reading statistics of that sort. You  
13 will notice disposable income itself had gone down of  
14 itself. People that could afford to take care of future  
15 security in a period when this seemed terribly important  
16 to them perhaps did it more diligently and more  
17 extensively.

18 COMMISSIONER GIBSON: In fact the insurance  
19 policies were kept alive but the income was going down.

20 MR. HOLMES: That is why the ratio was higher  
21 in that period.

22 MR. BRYDEN: There was an attempt during a  
23 period of that kind to rather do less consumer spending  
24 in order to keep this protection in existence. It is  
25 known sometimes as inculcating the premium paying habit.

26 COMMISSIONER BROWN: This shows up in the  
27 figures for those years.

28 THE CHAIRMAN: If you look at the personal  
29 savings column there is a minus column there.

30 MR. BRYDEN: That was a point there, during







1 that period when there really was dis-saving.

2 THE CHAIRMAN: But nevertheless ---

3 MR. BRYDEN: They were keeping up their  
4 insurance premiums.

5 THE CHAIRMAN: Keeping them up surprisingly  
6 well. Of course, insurance salesmen would be at the  
7 door to persuade them to do that.

8 MR. BRYDEN: And do not forget on our life  
9 insurance saving figure here that is not after policy  
10 loans, that is, there were a large number of policy loans  
11 taken during this period which in turn bore down on the  
12 net saving.

13 COMMISSIONER BROWN: Would the same thing  
14 apply in the other direction? In the more recent period  
15 of greater inflation on group policies their net saving  
16 part of it does not apply to the same degree. Well,  
17 the same emphasis.

18 MR. BRYDEN: In recent years on term insurance  
19 and group insurance it has not led to a corresponding  
20 increase in the net savings because in both of those  
21 areas there are practically no reserves and no significant  
22 buildup.

23 COMMISSIONER HARROLD: In the case of  
24 deposits left with the company and interest how is the  
25 rate of interest decided on? Does it relate to other  
26 short-term interest rates?

27 MR. POYNTZ: It is related to the net  
28 interest rate which the company earns on its own assets.

29 COMMISSIONER HARROLD: Do these deposits show  
30 any increase in times of tight money as far as the



1000

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short-term interest rates?

MR. POYNTE: It is related to the net

interest rate which the company earns on its own assets.

COMMISSIONER HAROLD: Do these deposits show

any increase in times of tight money as far as the



1 individuals are concerned or is it the other way round?

2 MR. POYNTZ: Likely the other way round.

3 COMMISSIONER HARROLD: You do not find any  
4 seasonal trends?

5 MR. POYNTZ: No, I do not think we do  
6 although Mr. Falkner had some figures on seasonal trends.

7 MR. FALKNER: First, we did attempt to plot  
8 and it was important to us operating in Canada to keep  
9 a fairly/rein on the funds available for investment.  
10 We did seek to cover every avenue that brought about  
11 cash outgoing in our company and we did plot for a  
12 period of close to 20 years the Canadian conditions  
13 in policy loans and the results were somewhat inconclusive.

14 It appeared for a while -- you are speaking  
15 of whether we noticed any significant trend -- it appeared  
16 for a while as though people were calling upon us  
17 around income tax paying time for policy loans but in  
18 a few years that trend seemed to disappear and it is  
19 very difficult to be specific on seasonal trends for  
20 that type of borrowing.

21 MR. BRYDEN: Mr. Harrold, you realize, of  
22 course, that the net deposit left with the company is  
23 not a deposit account in the normal sense. It is  
24 policy deposits which are retained under option in the  
25 company for the policyholder. On Table 4.b which  
26 immediately follows the one we were talking about that  
27 gives some detail for the last 11 years. You will notice  
28 that the net deposits left with the companies in 1957  
29 was a negative figure and also you will notice in 1959  
30 that that was quite a point, between 1958 and 1960, and





...the ... of the ...

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around income tax paying time for policy loans, but in

a few years that trend seemed to disappear and it is

very difficult to be specific on seasonal trends for

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MR. BRYDEN: Mr. Harold, you realize, of

course, that the net deposit left with the company is

not a deposit account in the normal sense. It is

policy deposits which are retained under option in the

company for the policyholder. On Table 4.2 which

immediately follows the one we were talking about that

gives some detail for the last 11 years. You will notice

that the net deposits left with the companies in 1927

was a negative figure and also you will notice in 1929

...



1 I think that is relative to your comment as to how that  
2 account operates during periods when money might be  
3 considered to be tight.

4 COMMISSIONER HARROLD: Going back to this  
5 interest rate again, you mentioned it was rated on  
6 company earnings. How often does a company change  
7 its interest rates?

8 MR. POYNTZ: It probably determines the  
9 rate each year. It may not change it each year but it  
10 would determine it each year.

11 COMMISSIONER HARROLD: With policy loans  
12 do you find that the borrowers are the younger generation  
13 or older or is there any reason that you know of that  
14 they require these loans? Is it for business purposes  
15 or what is the general reason for individuals taking  
16 out loans?



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or older or is there any reason that you know of that  
they require these loans? Is it for business purposes  
or what is the general reason for individuals asking  
out loans?





1 MR. BRYDEN: I think that is a pretty diffi-  
2 cult question to answer. There is really no satisfactory  
3 method of finding out exactly what a person wants a  
4 policy loan for. It is contractual under the contract  
5 and he merely wants it, and you are under contract to  
6 provide it. So that the actual answer to that question  
7 is very difficult. I assume that some of it is used  
8 for personal reasons; emergency purposes and so on and  
9 some of it may well be for business purposes. To  
10 say exactly why they are obtained, I do not think any  
11 of us can answer with any degree of preciseness.

12 COMMISSIONER HARROLD: You have not put  
13 any figure on the average size of these loans either,  
14 have you?

15 MR. BRYDEN: I do not think we have any  
16 figures, except I think the average size of the loan  
17 is fairly small. Coming at this from another angle,  
18 one of the problems in administering policy loans  
19 is that your expenses in administering a portfolio  
20 policy loan is significantly more than that in respect  
21 to a mortgage or security portfolio. The answer that  
22 usually comes up is that because there are such a  
23 large number of small loans a lot of them may be auto-  
24 matic premium loans. As you know, most policies in  
25 the event that the premium is not paid go on what we  
26 call automatic premium payment until such time as it  
27 is paid or becomes lapsed. Again that is usually a  
28 small sum.

29 COMMISSIONER HARROLD: Would you say the  
30 repayments of these loans are responsive to the business



I think that is a pretty different

method of finding out exactly what a person wants a policy loan for. It is contractual under the contract and he merely wants it, and you are under contract to provide it. So that the actual answer to that question is very difficult. I assume that some of it is used for personal reasons; emergency purposes and so on and some of it may well be for business purposes. To say exactly why they are obtained, I do not think any of us can answer with any degree of preciseness.

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large number of small loans a lot of them may be automatic premium loans. As you know, most policies in the event that the premium is not paid go on what we call automatic premium payment until such time as it is paid or becomes lapsed. Again that is usually a

COMMISSIONER HAROLD: Would you say the

of these loans are responsive to the business



cycle?

MR. BRYDEN: Yes, I would think they are. Repayments were very heavy in the 1930's. Not all of them came back in cash, however. That is one of our problems. Just as a matter of interest, and this happens to be from our own position, for in Canada we had a monthly average last year of new loans to the extent of 264,000. Actually our average repayments were a little bit higher than 268,000 and of that only 95,000 was repayment in cash. Some of it was repaid out of dividends and some of it became surrenders and that is one of the big problems in the policy loan business. Some came out as matured value. However, not all of your repayments come back in cash by any means.

Mr. McCarthy, have you anything to add to that?

MR. MCCARTHY: I would tend to say in pursuing policy loans as they relate to investment and availability of funds, and would direct your attention to page 45, table 4.f, you will note in the last fifteen years, or in the postwar period, that the policy loans as a percentage of the company's assets have been fairly stable around  $4\frac{1}{2}$  per cent or thereabouts, quite significantly below levels that prevailed back in the 1930's when this item loomed much larger on the balance sheet.

Scanning over the American experience, one finds much the same trend. In the life insurance industry fact book in the United States they have a series





Mr. Laidlaw: Yes, I would think they are.  
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them came back in cash, however. That is one of our  
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happens to be from our own position, for in Canada  
we had a monthly average last year of new loans to the  
extent of \$64,000. Actually our average repayments  
were a little bit higher than \$65,000 and of that only  
\$2,000 was repayment in cash. Some of it was repaid  
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1 of these figures going back to 1890 and the trend in  
2 the 1945-1960 period has been much the same; down to  
3 around the 4 per cent level. So, as it relates to the  
4 capital market availability of funds, I would make the  
5 point that it is not or has not been, in that middle  
6 period, significant.

7 COMMISSIONER HARROLD: Would it be fair to  
8 say that this is a service which the companies provide  
9 rather than a form of business which they push?

10 MR. McCARTHY: It is a contractual right that  
11 participating policyholders generally have and the  
12 company has to keep itself in a position to go on with  
13 that commitment.

14 COMMISSIONER HARROLD: You do not push this  
15 as a form of utilization of assets?

16 MR. McCARTHY: Of course not. Company policy  
17 would be aimed at keeping the figure as low as possible.

18 COMMISSIONER BROWN: This comes out on the  
19 basis that net returns after expenses are lower for that  
20 investment than any other investment?

21 THE CHAIRMAN: Not only that.

22 MR. HOLMES: There is a heavier level of  
23 business on policy loans.

24 COMMISSIONER GIBSON: In other words, it is  
25 a perfectly secure business but you do not want to  
26 compete in the small loans area?

27 COMMISSIONER HARROLD: How about the interest  
28 rate on these loans? How is that arrived at?

29 MR. BRYDEN: The interest rate in Canada is  
30 a maximum of 6 per cent. I do not know that that is



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MR. ELYSEN: The interest rate in Canada is

I do not know that that is





1 expressed in any statute anywhere, but it has been sort  
2 of the unwritten rule in the industry for a number of  
3 years. Mr. Tuck, do you have any additional information  
4 in that regard?

5 MR. TUCK: No, I do not think it is in the  
6 statutes, but there were discussions with the government  
7 and in parliament 25 years ago, and in the end the  
8 companies have as a matter of practice used the 6 per  
9 cent figure. It is not more than 6 per cent.

10 The rate, of course, is put in the policy, and once it  
11 is there it is contractual, but in respect to new issues  
12 year by year it has not been greater than 6 per cent.

13 MR. BRYDEN: It has been as low, I think,  
14 as 5 per cent, certainly during periods when interest  
15 rates were low.

16 COMMISSIONER HARROLD: They have not varied  
17 too much then?

18 MR. TUCK: No.

19 COMMISSIONER HARROLD: They have stayed  
20 around 5 to 6 per cent?

21 MR. BRYDEN: We tend to try to let it stay  
22 at its existing rates as long as it is reasonable. At  
23 the point it becomes unreasonable we tend to move it.

24 MR. RIEDER: During the past thirty years  
25 it has been 6 per cent with the exception of four or five  
26 years when we nearly all went down to 5 per cent.

27 MR. BRYDEN: That was during a particularly  
28 easy money era.

29 COMMISSIONER LEMAN: Table 4.f shows what  
30 it has been. Do you have any idea of what it could be



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MR. BRYDEN: That was during a particularly  
...easy money era.

COMMISSIONER LEMAN: Table 4.1 shows what  
...the rate was during the period...



1 if everybody borrowed the maximum?

2 MR. BRYDEN: It could become awfully close  
3 to the total of our reserves.

4 MR. McCARTHY: If you went back to the American  
5 case during the high modernization period, since 1920,  
6 it has been of the order of 20 per cent. If you applied  
7 that to the Canadian picture today I think you would  
8 come up with a figure something like \$1,400,000,000  
9 of outgo.

10 COMMISSIONER LEMAN: That would be a bit of  
11 a mess.

12 MR. McCARTHY: It would be about four times,  
13 or something of that order, what we had available last  
14 year of the total. It would take us out of the capital  
15 market. I think the point should be made, however,  
16 that if those conditions arose despite the upsetting  
17 results, I think the industry would be able to handle  
18 the problem.

19 COMMISSIONER LEMAN: In other words,  
20 this 6 per cent is not a statutory ceiling; you could  
21 raise it?

22 MR. LEMMON: It is in our existing contracts,  
23 however.

24 MR. POYNTZ: We cannot do anything about  
25 it for existing business because the policy shows that  
26 the rate of interest will not be more than 6 per cent.

27 COMMISSIONER GIBSON: Going back to the  
28 question of competition with other institutions,  
29 you have a very interesting table at page 118 which  
30 shows what would happen to the assets of the savings





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MR. MCCARTHY: If you went back to the American

COMMISSIONER LEMAN: That would be a bit of

Blue boy; guillemot; gull; jaeger; murre; murrelet; puffin; shearwater; tern; and various other birds.

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MR. LEMMON: It is in our existing contracts.

.TSVWOT

MR. POYNTE: We cannot do anything about



1 type institutions in Canada. We took this table and tried  
2 to put it on an index basis, 1950 equals 100 because  
3 most of them start around 1950. This brings out  
4 a rather interesting point. The assets of life  
5 insurance companies have gone up a little more than  
6 double over that period; 218 roughly in 1961. This  
7 is a better record than the present savings deposits  
8 at chartered banks, but it is not as good a record as  
9 almost everything else except government annuities. It  
10 is a little better than government annuities and the  
11 Quebec Savings Bank, but compared with Canada savings  
12 bonds, trust companies, their own assets; investment  
13 companies; credit unions and mortgage loan companies --  
14 particularly trust companies, investment companies  
15 and credit unions -- it is not as good a record although,  
16 as I say, it is better than that of the banks. Now,  
17 would you care to say anything about the thinking  
18 regarding this competition for the national savings?  
19 What are the factors that bring these varying rates  
20 about? Why are you not higher up the scale or, if  
21 you like, why are you better than the chartered banks?  
22 Is it relative to the returns on money, or is it because  
23 of inflation?

24 MR. BRYDEN: I think Mr. Gibson Mr. Holmes  
25 has been alerted in respect to this point.

26 MR. HOLMES: Mr. Gibson, my feeling would  
27 be to put it largely on inflation and the rise in the  
28 stock market in the fourteen years of that period. It  
29 has directed the minds of a number of people toward  
30 other forms of savings. It has not affected to any



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1 great extent the small savers who must save in dollars.  
2 It has been the background of our business but we find  
3 a tendency in the last ten years toward larger buyers  
4 of insurance. They have all bought cheap life insurance  
5 and invested their money in other places. That has  
6 been part of the reason I would say for the rise in  
7 other forms of savings, such as in trustee pensions  
8 and in a number of these trust company savings. This  
9 is based on the theory, whether it happens or not,  
10 that quite a fair chunk of that money would go into  
11 stocks which are increasing in value.

12 The credit union is a new development which  
13 I do not think we can put in the same class. It is a  
14 different type of development. It is a co-operative  
15 development among employees. We have them in our own  
16 companies.

17 COMMISSIONER GIBSON: It has to do with  
18 local circumstances and arrangements?

19 MR. HOLMES: Yes, but investment companies,  
20 of course, have had an effect during the last ten  
21 years on the amount of savings that have gone into  
22 life insurance.

23 I think if you go back to that other table  
24 that we were looking at a little while ago you will  
25 see very clearly that in poor times savings seem to  
26 be higher in life insurance, while in aggressive or  
27 inflationary times they tend to be not so great in  
28 life insurance.

29 COMMISSIONER GIBSON: Perhaps I should not  
30 ask you the next question, but what do you think the



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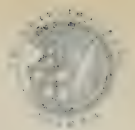
1 trend is? This is perhaps asking for a business fore-  
2 cast, but are you going to keep up in your share of  
3 savings in the community?

4 MR. HOLMES: We have represented a big  
5 element in the savings element in this country, probably  
6 more so than in any other country. The life insurance  
7 companies in Canada have represented a big element.  
8 It may be that we will never be quite as big again,  
9 but I do not myself think, if we are reasonably free  
10 of inflation, that there is any reason why there should  
11 be a big change in savings in life insurance, because  
12 for most men it is the most practical form of savings.

13 COMMISSIONER GIBSON: Following this general  
14 picture would you say a little more about how you compete  
15 for savings? There are a number of things that you  
16 do, as I understand it, but you cannot apply more than  
17 a certain maximum interest rate. The last change was  
18 in 1961 and I believe it is 4 per cent in making your  
19 insurance calculations. You also have various choices  
20 of actuarial tables that you can make, depending on  
21 the circumstances which you think are most suitable.  
22 This has varied quite a lot depending on business fore-  
23 cast, but what do you do when you see that you are not  
24 keeping your share? What do you do to compete?  
25 How do you make your competition felt? Do you lower  
26 the premium? Do you allow additional earnings to  
27 go into participating dividends? What is your thinking  
28 in this regard?

29 MR. HOLMES: You are thinking of the valuation  
30





...is it perhaps asking for a business fore-

cast, but are you going to keep up in your share of

savings in the community?

MR. HOLMES: We have represented a big

element in the savings element in this country, probably

more so than in any other country. The life insurance

companies in Canada have represented a big element.

It may be that we will never be quite as big again,

but I do not myself think, if we are reasonably free

of inflation, that there is any reason why there should

be a big change in savings in life insurance, because

for most men it is the most practical form of savings.

COMMISSIONER GIBSON: Following this general

picture would you say a little more about how you compete

for savings? There are a number of things that you

do, as I understand it, but you cannot apply more than

a certain maximum interest rate. The last change was

in 1961 and I believe it is 4 per cent in making your

insurance calculations. You also have various choices

of actuarial tables that you can make, depending on

the circumstances which you think are most suitable.

This has varied quite a lot depending on business fore-

cast, but what do you do when you see that you are not

keeping your share? What do you do to compete?

How do you make your competition felt? Do you lower

the premium? Do you allow additional earnings to

go into participating dividends? What is your thinking

in this regard?

MR. HOLMES: You are thinking of the valuation



1 rates on which we have to calculate our liabilities?

2 COMMISSIONER GIBSON: Yes.

3 MR. HOLMES: That has some effect but is  
4 not the major effect on life insurance costs.

5 COMMISSIONER GIBSON: That is sort of a  
6 protection put in by the act?

7 MR. HOLMES: Yes. For instance, the rates  
8 today are double, or much more than 4 per cent in Canada.  
9 You adjust your cost in your participating business and  
10 your dividends which have been going up year by year  
11 particularly on the savings type of contracts. The  
12 valuation rate is, you might say, a minor factor in  
13 affecting the interest you actually give to the policy-  
14 holders.

15 COMMISSIONER GIBSON: They receive parti-  
16 cipating dividends?

17 MR. HOLMES: In the last six or seven years  
18 there have been continuing decreases in non-participating  
19 rates and continual increases in dividends to partici-  
20 pating rates.

21 COMMISSIONER GIBSON: I do not understand  
22 this point, Mr. Holmes. You are reducing your premiums  
23 on non-participating insurance as well, but you are  
24 required under the act, or at least you are not allowed  
25 to charge more than 4 per cent in making that calculation,  
26 is that not correct?

27 MR. HOLMES: It is a calculation of your  
28 liability on that policy, Mr. Gibson. It is not what  
29 you give the policyholder. The only place it enters  
30 into is, no matter how high the interest rate is, your



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calculation on that policy, Mr. Gibson. It is not what

the act, no matter how high the interest rate is, your





1 liability has to stand up. If you decrease the rate  
2 then it costs you a little more to put business on  
3 your books compared to the liability you have to put  
4 up, but it is not a major factor in regard to what  
5 you give the policyholder. It is a little check on  
6 you in giving all that the interest rate will allow,  
7 that is all.

8 COMMISSIONER GIBSON: So in fact you are  
9 fairly free to reduce your premium on non-participating  
10 if you want?

11 MR. HOLMES: Yes.

12 COMMISSIONER GIBSON: And do so in fact?

13 MR. HOLMES: Yes.

14 MR. POYNTZ: Could we add to this, Mr.  
15 Chairman, that competition among the companies themselves  
16 will keep premium rates as low as is practicable. We  
17 are not influenced too much, I think, in the share of  
18 the savings market in the way we move the level of our  
19 premium rates. We are influenced by the salesmanship  
20 that is employed. We have to sell the merits of our  
21 plan rather than the cost of it.

22 COMMISSIONER GIBSON: In other words, you  
23 have been competing in new features, and tailoring  
24 insurance requirements to individual needs and that  
25 sort of thing?

26 MR. POYNTZ: That is true.

27 COMMISSIONER GIBSON: Competition tends  
28 to take this particular form, does it?

29 MR. POYNTZ: Competition gets into a question  
30 of cost as between one life company and another, but as



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- 2409 -

1 between our method of savings and another, it has not  
2 too much bearing. This is a service.

3 COMMISSIONER GIBSON: But you do think of  
4 competition in the interest rates and so on as very  
5 important?

6 MR. POYNTZ: Yes.

7 COMMISSIONER GIBSON: But when you think  
8 of competition between insurance as a form of savings  
9 and other forms of savings, you would not put rates  
10 in as being a very important factor?

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1 MR. POYNTZ: No, because you know it will  
2 be as low as feasible anyway by reason of the competition,  
3 so you are not selling on a cost basis, you are selling  
4 one form of saving as against another.

5 COMMISSIONER GIBSON: But you don't put much  
6 emphasis on the sales efforts in selling insurance  
7 generally on the net interest rate a person will obtain?

8 MR. POYNTZ: No.

9 COMMISSIONER MACKINTOSH: You don't exactly  
10 whisper about the prospective policy dividends.

11 MR. POYNTZ: Oh, no.

12 COMMISSIONER GIBSON: You seem to go at  
13 this very strongly, too; when you are competing for  
14 pure savings you put this very strongly, the interest  
15 rate setup?

16 MR. POYNTZ: Yes.

17 COMMISSIONER GIBSON: But the distinction  
18 is that this isn't emphasized in the insurance side;  
19 as the saving element increases the interest rate  
20 increases?

21 MR. HOLMES: I think in our ordinary  
22 approach in salesmanship our salesmen approach the  
23 insurance angle first and the savings angle second;  
24 I think a great many of our men do emphasize the  
25 savings angle in the insurance sales and the approximate  
26 return.

27 COMMISSIONER GIBSON: What do you say  
28 yourselves as an individual company; suppose you don't  
29 think you are doing as well as you should and you should  
30 be getting a share of the savings. I take it that you



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1 take a look at your whole sales efforts and put on a  
2 more vigorous campaign. Can you talk about the sort  
3 of thing you do in these circumstances?

4 MR. HOLMES: I think personally you cut  
5 your rates if you can afford to do it. Our sales  
6 campaigns are continuous things and whether we are getting  
7 our share or not, we would like a larger share. We go  
8 at that all the time, but I think if you are running  
9 out of competition, as Mr. Poyntz says, your most  
10 obvious competition is your other insurance companies,  
11 but nevertheless you have this other competition and if  
12 you are getting out of it and you feel you can operate  
13 on a more attractive basis, you will do it.

14 COMMISSIONER BROWN: How fast does this  
15 reaction take place; how closely do you watch within  
16 the industry to see whether your company is keeping  
17 its position?

18 MR. HOLMES: It takes place very fast; we  
19 hear from our men in the field almost right away.

20 COMMISSIONER BROWN: You hear from them ?

21 MR. HOLMES: Yes, we hear from the men in  
22 the field if Mr. Poyntz puts out a rate that beats ours,  
23 we hear about it within a very short time.

24 COMMISSIONER BROWN: Then, how about when  
25 the industry as a whole is meeting this relative position  
26 in the competition for the savings of the public? For  
27 instance, between 1957 and 1958 the increase was not  
28 as great as it had been, but are there any major  
29 changes in policy?

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1 as obvious to our salesmen as the competition of the  
2 other life insurance companies but it enters into the  
3 thinking of the head office eventually. Our reaction  
4 admittedly may not be as fast to that as it is to competition  
5 with other life insurance companies, but the whole thing  
6 tends to ---

7 COMMISSIONER BROWN: Did you do anything  
8 between 1957 and 1958 -- was there a general change in  
9 attitude of the insurance companies?

10 MR. HOLMES: I don't think there is a change  
11 in that specific year, but there has been a continuous  
12 change through that whole period. I don't think there  
13 was a specific change in that year.

14 COMMISSIONER GIBSON: Your reaction, you say,  
15 in your company is that you have a new angle and it is  
16 to meet that competition in one way or another; either  
17 with something that is rather similar, or what do you  
18 call it if things are not going so well and you have  
19 to look at your whole sales system, or staff, or has  
20 this system changed?

21 MR. HOLMES: You are just talking about  
22 general company management?

23 COMMISSIONER GIBSON: Yes.

24 MR. HOLMES: Yes, you are looking at these  
25 things all the time. Sometimes you don't look sharply  
26 enough, I admit that, but you are looking at all these  
27 things; whether your men can make money and make a  
28 living on selling and that affects what you think of your  
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1 think of these things all the time to find out if you  
2 are in difficulty -- if you have difficulties meeting  
3 their competition then there are certain areas where  
4 maybe you can do that, too.

5 COMMISSIONER GIBSON: It isn't just a question  
6 of the product, it is a question of how well you sell  
7 it.

8 MR. HOLMES: Yes, and we may be doing entirely  
9 different things or meeting entirely different types of  
10 competition in our United States business than we are  
11 doing in our Canadian business. We don't do the thing  
12 exactly the same everywhere. You find out where you  
13 can do the best and you do that.

14 COMMISSIONER BROWN: You gather there is  
15 no difference in the intensity of this competition that  
16 is between a mutual company as such and a stock owned  
17 company.

18 COMMISSIONER GIBSON: Every once in a while  
19 in meeting that business you take a look at your affairs  
20 and say, "We have got to have something better and get  
21 it moving better again," and so on. What are the things  
22 that make you do this? Is it the fact that some other  
23 insurance company is getting ahead; is it possible that  
24 interest rates are going up or would a change in the  
25 banking rate --- in other words, what I am getting at  
26 is does your sales effort, your efforts on the liability  
27 side to get business, how does it respond to changes  
28 in environment, both competition with yourselves and  
29 other savings institutions and the general financial  
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1 MR. RIEDER: I think in the agency department  
2 of all companies there is a continual drive for more  
3 and more business. Good quality business is considered,  
4 of course, but it is the automatic continuous selling  
5 regardless of everything else.

6 COMMISSIONER GIBSON: You would be in a  
7 position to offer more if interest rates were rising,  
8 would you not?

9 MR. RIEDER: Yes.

10 COMMISSIONER GIBSON: It might change your  
11 competitive terms?

12 MR. RIEDER: Rates might be changed under  
13 those circumstances but there would be still a  
14 continuous selling effort to increase the sales force  
15 in numbers and by volume sold per agent.

16 COMMISSIONER GIBSON: But suppose that  
17 money is tight and there is a certain amount of fear  
18 of inflation -- we have had these periods in the last  
19 two years -- does this bring forth an extra effort  
20 to help your position?

21 MR. BRYDEN: It brings forth an extra  
22 effort to help your field force; they are running into  
23 tough competition under that kind of a situation and  
24 certainly you tend to put on as much extra effort as  
25 you can.

26 On this business of competition by the  
27 industry, possibly one of the examples here would be  
28 if you would look at the pension plans and the rapid  
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1 asking last year for legislation for aggregate funds  
2 so that we also could have our group pension schemes  
3 at least partly invested in equities. During that period  
4 from 1955 through to, say, 1961, the number of pension  
5 plans which shifted over to some partial investment and  
6 complete investment in equities is very significant.

7 As a matter of fact, a lot of what we call  
8 insured plans shifted over to that type of investment.  
9 Now, that caused us to approach the Superintendent  
10 with a view to being able to establish these aggregate  
11 funds so that we could offer equity investment as a  
12 facility in our pension fund offerings. That will be  
13 an example of doing something on the over-all basis  
14 when you were losing out in relation to some other  
15 intermediates.

16 COMMISSIONER GIBSON: Extending your  
17 facilities to meet competition, and is this generally  
18 going on? Is this a trend in your opinion? You are  
19 widening the scope of your competitive activities?

20 MR. BRYDEN: I think to a considerable  
21 extent, yes. Certainly in that particular case it  
22 was, but I think that industry as a whole, since they  
23 do deal in guaranteed values, fixed dollar values,  
24 has been at somewhat of a disadvantage for the last 10 or  
25 15 years because of the rather significant inflation  
26 which has gone on, where fixed dollars in X number  
27 of years from now were not as attractive as some piece  
28 of an equity that was supposed to double. That situation  
29 may be changing.

30 COMMISSIONER GIBSON: But you don't think





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COMMISSIONER GIBSON: Now, Mr. Bryden, you are

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15 years because of the rather significant inflation which has gone on, where fixed dollars in X number of years from now were not as attractive as some piece of an equity that was supposed to double. That situation may be changing.

COMMISSIONER GIBSON: But you don't think



1 that the insurance companies in their pressure to get  
2 business will respond very much to change in interest  
3 rates and tightness of money?

4 MR. BRYDEN: I am not in their pressure to  
5 get business but that is the sort of thing that shows  
6 up in rate reductions, increased dividends, and so on.  
7 Your product under these conditions gets better but I  
8 don't think it changes one iota the pressure you are  
9 normally using through your field force to get business.

10 COMMISSIONER GIBSON: But are your rates  
11 and your competitive effort likely to change -- do they  
12 tend to change more rapidly now in the face of the  
13 increased competition for savings outside of your  
14 business than they used to be?

15 MR. BRYDEN: I would think the change in  
16 rates that is happening currently is much more a reflection  
17 of increased investment earnings and some extension of  
18 your mortality situation than it is necessarily  
19 competition from outside. Mr. Poyntz said earlier that  
20 they are going to try to do it as low as is feasible,  
21 and all this is part of this feasibility.

22 MR. POYNTZ: I think you are trying to get  
23 at how responsive are we to changes. Well, the company  
24 continually calculates its net yield, its interest  
25 return on various categories of assets and by different  
26 territories. It is continually investigating its  
27 mortality experience, and we are not using the old  
28 tables we are using the new modern tables tied to our  
29 own company's experience, and we are continually studying  
30 the expense / factors and how they are applied to the various



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1 classes of business so that each year the company  
2 will determine whether it can make any changes in the  
3 premium rates for a particular plan or a group of plans  
4 or whether it can make any changes in dividend scale  
5 for existing business, and these do change from year to  
6 year.

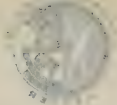
7 Now, on the subject of short-term, because  
8 of changing premium rates and because they are going  
9 to cover long periods in the future, we can't respond  
10 immediately, we have to determine if we can how long  
11 this will last and what the average effect will be  
12 for the future lifetime of these policies, so we are  
13 limited in our reaction to it.

14 MR. BRYDEN: Mr. Chairman, on page 32,  
15 Section 3.57, we do state the example of one medium-  
16 sized company that since 1950 had reduced its whole  
17 life non-participating rates eight times, increased its  
18 dividend scale five times and changed its group pension  
19 rates 15 times to keep the price of its products in line  
20 with changing interest, mortality and expense experience.

21 COMMISSIONER BROWN: Do these changes all  
22 go in the same direction?

23 MR. BRYDEN: Yes, I would say so. You have  
24 reduced your rates at times and your dividends have  
25 been going up during that period, and as far as group  
26 is concerned I think that -- I don't know of any change  
27 that has been upward, I think they would all have been  
28 downward.

29 COMMISSIONER BROWN: I just wanted to get  
30 whether there was a trend they were following or whether



classes of business so that each year the company  
premium rates for a particular plan or a group of plans  
or whether it can make any changes in dividend scale  
for existing business, and these do change from year to  
year.

Now, on the subject of short-term, because  
of changing premium rates and because they are going  
to cover long periods in the future, we can't respond  
immediately, we have to determine if we can now long  
this will last and what the average effect will be  
for the future lifetime of these policies, so we are  
limited in our reaction to it.

MR. BRYDEN: Mr. Chairman, on page 25,  
Section 3.57, we do state the example of one medium-  
sized company that since 1950 had reduced its whole  
life non-participating rates eight times, increased its  
dividend scale five times and changed its group pension  
rates 15 times to keep the price of its products in line  
with changing interest, mortality and expense experience.  
COMMISSIONER BROWN: Do these changes all

go in the same direction?  
MR. BRYDEN: Yes, I would say so. You have  
reduced your rates at times and your dividends have  
been going up during that period, and as far as group  
is concerned I think that -- I don't know of any change  
that has been upward, I think they would all have been  
downward.

COMMISSIONER BROWN: I just wanted to say  
that I think that was the only one that was



1 they were jumping around.

2 MR. BRYDEN: No, that would be the trend.

3 MR. RAPSEY: I think there is one further  
4 point, Mr. Chairman, that hasn't been brought out, and  
5 I think if you look at the percentage change in this  
6 table 7a that it could be quite easily explained --  
7 not easily explained, but there is one basis of reason.

8 COMMISSIONER BROWN: What page is that?

9 MR. RAPSEY: It is 7a on 118. To quote  
10 from a well known magazine published in the last few weeks  
11 it says that the best formula for investment by the  
12 modest capitalist is still a little money at the bank  
13 first, then you have coverage and then a good unit for  
14 mutual funds; so I think that explains it, that the  
15 mutual funds will grow more rapidly in a period of  
16 prosperity, if that thesis is acceptable.

17 COMMISSIONER BROWN: This brings back the  
18 supplementary question in an answer Mr. Holmes gave  
19 me in that the larger policy -- the people who under  
20 ordinary circumstances would be buying large policies  
21 of straight life, not only for investment but mutual  
22 fund ---

23 MR. HOLMES: You see, in the last 10 years  
24 there has been that tendency.

25 COMMISSIONER BROWN: Has this shown up  
26 in the average size of policy that has been written?

27 MR. HOLMES: They are large policies, they  
28 are term type policies.

29 COMMISSIONER BROWN: Has this shown up  
30 in the change in the average size of the ordinary life





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1 policy?

2 MR. HOLMES: Well, the average ordinary  
3 life policy has been increasing quite rapidly through  
4 that period in size; what we have in this is a very  
5 definite lower cost type of policy, less saving element  
6 in the policy which is sold on the average and a lower  
7 degree of income per thousand of insurance.

8 THE CHAIRMAN: The insurance is more for  
9 the purpose of protection than as a method of saving?

10 MR. HOLMES: Yes.

11 THE CHAIRMAN: And when there is greater  
12 affluence people have more money they can put into  
13 savings and if they still want protection they can get  
14 it in that way?

15 MR. HOLMES: Yes.

16 COMMISSIONER BROWN: But the section on  
17 the question of legislation and supervision the suggestions  
18 you have made have all got to do with possible changes  
19 in the federal legislation; you have made no reference  
20 to possible changes in the provincial legislation and  
21 this may be because this is a federal commission and  
22 we are not interested in provincial legislation, but I  
23 was wondering if this was a fact and you are completely  
24 satisfied with provincial legislation.

25 MR. BRYDEN: I would like Mr. Tuck to reply  
26 to that.

27 MR. TUCK: In the area of legislation discussed  
28 in the brief most ---

29 COMMISSIONER BROWN: What page is that?

30 MR. TUCK: I was in the area of legislation



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1 which is discussed in the brief.

2 MR. BRYDEN: I think it is page 37.

3 MR. TUCK: Which is legislation respecting  
4 investments and there are really only two provincial  
5 legislatures in which we have a substantial interest,  
6 and that is Ontario and Quebec because there are just  
7 two or three provincial companies incorporated in  
8 provinces other than those two.

9 Some years ago<sup>Ontario</sup> adopted the practice for  
10 its provincially incorporated companies of following  
11 the federal legislation after a lapse of a year or two.  
12 At the moment the investment powers of Ontario incorporated  
13 companies are the same as the investment powers of  
14 federal companies were prior to the 1961 amendment.  
15 These companies have asked for an amendment similar to  
16 the ones made by Parliament and the Superintendent  
17 and his Minister have approved of this and I think that the  
18 amendments were going to the legislature at the next  
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1 In Quebec the situation is somewhat different. The  
2 investment legislation respecting the companies is not  
3 nearly as detailed as the Ottawa and Ontario legislation.  
4 In many respects it is more general; in one or two  
5 it is more confined. These companies have been consider-  
6 ing whether to put forward suggestions. There may be  
7 some delay in reaction by the Quebec legislature because  
8 some years ago a commission was appointed to survey  
9 the whole field of insurance legislation and its report is  
10 in the government's hands and there has been no indication  
11 of the reaction. In those two provinces the companies  
12 concerned are just as interested in investment  
13 legislation as the government but because of the  
14 preponderant interest of the federal companies, and the  
15 fact that federal legislation also affects non-resident  
16 companies, the brief deals with it and makes short  
17 reference to the provincial picture.

18 COMMISSIONER BROWN: The provincial regulation  
19 in all provinces is the regulation of agency, isn't it?

20 MR. TUCK: Two big areas: The regulation  
21 of agents, agency practices and licensing of agents  
22 and the regulation of insurance contracts, and the  
23 companies have been very active particularly in the latter  
24 in proposing changes to the provincial superintendents  
25 of insurance, and within the last few days there has  
26 come into force in nine of the ten provinces a complete  
27 revision of the provincial law relating to life insurance  
28 contracts. This is uniform in all common law provinces.

29 COMMISSIONER BROWN: And you are all perfectly  
30 satisfied with the situation that exists with this





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3      satisfied. You put forward your proposals and you get  
4      some; you don't get them all. Actually, in the end  
5      the revision to the provincial laws reflects the views  
6      of the companies on a great many points, and we  
7      whole-heartedly supported the revision. We think it  
8      was a very substantial improvement over the old act.

9                    COMMISSIONER BROWN: As far as federal  
10     supervision is concerned, I would like to fly a kite,  
11     and I don't want you to think this is other than flying  
12     a kite, but I would like to get some reactions. At  
13     the moment there is one individual who is Superintendent  
14     of Insurance; there is another one who is Inspector  
15     General of Banks, and there are other near bank  
16     institutions that come under, in large part, the  
17     Superintendent of Insurance. Are there disabilities  
18     connected with having a one man operation, or should  
19     it be, say, a three man operation supervising all  
20     financial institutions generally to get a correlation  
21     of policies?

22                   MR. TUCK: I don't know that we have any  
23     answer to that. We think the federal supervision of  
24     our business has been constructive. We think it has  
25     been very efficiently handled and I don't think we  
26     have had experience in any jurisdiction where there is  
27     general supervision of all financial institutions.  
28     Problems are very different, but the fact the Superintendent  
29     of Insurance puts on his hat tomorrow and regulates  
30     small loan companies does not seem to be a disability

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1 as far as we are concerned. We don't know what he does  
2 in that area, but as far as we are concerned he and his  
3 staff devote a substantial portion of their time to  
4 our affairs and we think they do a first class job.

5 MR. HOLMES: I think those of us who have  
6 done business in foreign fields are very much impressed  
7 with the efficiency of the department at Ottawa and  
8 the insurance department at Ottawa.

9 MR. POYNTZ: I certainly agree with that.

10 COMMISSIONER LEMAN: In the solvency field  
11 do the provinces have the same kinds of tests? Are  
12 they as elaborate as the federal tests?

13 MR. TUCK: Yes sir, they are for the  
14 provincial companies. They have equivalent tests.  
15 Again, it is particularly Ontario and Quebec because  
16 that is where the companies are, and the record of the  
17 supervision has been quite good. No provincial life  
18 insurance company has lost money for its policyholders.

19 COMMISSIONER BROWN: On this question of  
20 legislation and supervision, let us deal with another  
21 general possibility: Would it be feasible to remove  
22 all controls over the types of investments you have?

23 MR. BRYDEN: It sounds like Mr. Brown is  
24 certainly starting to fly kites.

25 COMMISSIONER BROWN: Well, this exists in  
26 the United Kingdom?

27 MR. BRYDEN: It does pretty well exist in the  
28 United Kingdom. It could be feasible. It would present  
29 difficulties, I think, though as far as the Canadian  
30 companies that do business in the United States are



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1 concerned, they have a fairly tight set of rules and  
2 regulations over there. I don't know whether there is  
3 any United Kingdom company doing business in the United  
4 States -- is there?

5 MR. HOLMES: No.

6 MR. BRYDEN: It would be feasible, but I  
7 don't suspect it would be desirable. But as far as  
8 the rules and regulations are concerned under which we  
9 do operate, it seems to me that they are basically for  
10 the purpose of not allowing the companies into investments  
11 that have undue risk, or other regulations which tend  
12 to stop concentration of power, and within that frame-  
13 work I think we are all relatively free to do a fairly  
14 broad job.

15 COMMISSIONER GIBSON: If you were free  
16 of regulation, this would impede your business or  
17 handicap you in the United States, wouldn't it?

18 MR. BRYDEN: That would be my impression,  
19 yes.

20 MR. HOLMES: I would not think it would  
21 affect you if you stayed within the regulations in the  
22 United States but they would tend to regulate you  
23 then instead of the government here.

24 MR. BRYDEN: At the moment, on balance,  
25 they are prepared to accept the Canadian insurance laws.  
26 If these were non-existent, I think that in our operations  
27 in the United States we would then be made subject to  
28 the local state laws whatever they might be.

29 COMMISSIONER LEMAN: Does the regulatory  
30 body in the United States in the solvency field regulate





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body in the United States in the solvency field regulate



1 you in the sense you have to report to them and they  
2 can test your solvency according to their own rules  
3 for the business you write in the States?

4 MR. TUCK: That is quite right, and each  
5 state has laws that require you to maintain assets in  
6 the United States to cover your liabilities there. I  
7 think Mr. Bryden is right in the sense that because of  
8 the existence of strong supervision in Canada the U.S.  
9 states don't concern themselves with the very important  
10 factor in relation to the protection of U.S. policy-  
11 holders, and that is, is the company as a whole solvent,  
12 because this is an extra protection over and above having  
13 trustee assets in the jurisdiction. They might well  
14 say, if there was no Canadian supervision, "We must  
15 also put inspectors in to check on the solvency of  
16 the total company".

17 COMMISSIONER BROWN: Would this apply with  
18 the Canadian supervision of U.K. companies operated in  
19 Canada?

20 MR. TUCK: No. I think there are many  
21 factors there: The reputation of the U.K. companies  
22 themselves, and the ability they have shown over many  
23 decades to handle themselves properly has had the  
24 effect of the Canadian superintendent saying, "I can  
25 determine solvency of the total company by looking  
26 at their total statements, knowing that is filed with  
27 the Board of Trade, knowing that there is some general  
28 inspection of their total position there". I think  
29 that is the difference.

30 COMMISSIONER BROWN: Have you anything to



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COMMISSIONER BROWN: Have you anything to





1 add, Mr. Westwater?

2 MR. WESTWATER: I don't think I have anything  
3 to add to that. We find some of the aspects of the  
4 legislation perhaps a little irksome as compared to the  
5 freedom we enjoy in the United Kingdom, but on the  
6 other hand I would say it is in some sense an advantage  
7 to us to be regulated, because it is an external company,  
8 and if there were any doubts shown with respect to the  
9 financial situation presented in Britain, the fact we  
10 have a strictly regulated position here is an advantage  
11 on our Canadian operation.

12 COMMISSIONER LEMAN: Coming back to the point  
13 made earlier, suppose you were successful in obtaining  
14 a system under which you would have subsidiaries for  
15 foreign operations separate from the main body doing  
16 business or writing business in Canada: Would that  
17 change the situation some?

18 MR. POYNTZ: I don't believe that would  
19 change the situation as far as our Canadian operations  
20 are concerned. I think we are considering the Canadian  
21 business, aren't we, and what has been said about  
22 regulation here, I think, would not be changed by that.

23 COMMISSIONER LEMAN: Are there not different  
24 characteristics in different countries about the yields  
25 you can get on various assets etc., so if you had one  
26 subsidiary writing business in the States, and one  
27 writing business in the United Kingdom, and another  
28 writing business in the Caribbean, then the solvency  
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COMMISSIONER LEWIS: Coming back to the point  
made earlier, suppose you were successful in obtaining  
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parent body in Canada, writing business in Canada -- its rules, limitations, stringencies, etc., would be particularly adapted to the Canadian market. Wouldn't it be somewhat more flexible, or are the rules universal for testing insurance companies' operations -- should they be?

MR. POYNTZ: They are not universal. I think our reason for suggesting that there might be advantages to having separate companies by area is that we run into nationalistic regulations in certain areas rather difficult to comply with, and it would be perfectly obvious if we had subsidiaries these would only affect that small part of the company's business that was in the subsidiary.

We might explain that by relating to Cuba again: Some of the companies had Cuban investments covering their Cuban liabilities. The liabilities are liabilities of the whole company. The assets are affected by Cuban law and they may deteriorate for that reason, and yet the liability is not affected at all. The total company is assuming the liability. I think that is possibly one reason why we thought it might be advantageous in some way to segregate the whole business into one company in that area.

MR. HOLMES: I think I am right in saying we really haven't by any means made up our mind this is an advantage. I don't think any of us can think of any of these jurisdictions we would rather be supervised by than by the department at Ottawa.

COMMISSIONER BROWN: Would these jurisdictions





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1 accept the Ottawa supervision?

2 MR. HOLMES: They don't accept it entirely,  
3 but they have accepted it remarkably well because it  
4 has a standing in the supervision field that is rather  
5 outstanding, I would say.

6 MR. RIEDER: I should not be talking on this  
7 topic because my company is confined to Canada, but to  
8 answer Mr. Leman's question, if a company operates  
9 in both Canada and the United States its United States  
10 business is subject to United States regulation and  
11 valuation laws and so on, even under the present system,  
12 for subsidiaries.

13 MR. HOLMES: As far as deposits in the  
14 United States are concerned.

15 MR. RIEDER: Yes.

16 COMMISSIONER LEMAN: How do they compare in  
17 general? Are they as tight as they are here?

18 MR. LEMMON: New York State is much tighter.

19 MR. TUCK: In general, Canada is half-way  
20 between the United Kingdom with little regulation and  
21 the United States with a whole lot.

22 COMMISSIONER MacKEEN: There are some  
23 regulations in some of the States ---

24 MR. TUCK: That was true of one large states  
25 for many years: It had a local investment law; that has  
26 been repealed.

27 COMMISSIONER MacKEEN: I see.

28 MR. TUCK: Whether there are any today --  
29 I think there is one today which has a local law; the  
30 companies haven't gone into that state. However, they



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COMMISSIONER LEMMAN: How do they compare in

general? Are they as tight as they are here?

MR. LEMMON: New York State is much tighter.

MR. TUCK: In general, Canada is half-way

between the United Kingdom with little regulation and the United States with a whole lot.

COMMISSIONER MACKENZIE: There are some

regulations in some of the States ---

MR. TUCK: That was true of one large state

for many years: It had a local investment law; that has been repealed.

COMMISSIONER MACKENZIE: I see.

MR. TUCK: Whether there are any today --

I think there is one today which has a local law; the companies haven't gone into that state. However, they





1 are in 48 of 50.

2 COMMISSIONER MACKINTOSH: I would like to  
3 bring Mr. Brown's kite down to earth and ask you if the  
4 investment limitations of the Investment Act were removed  
5 what difference it would make in the structure and  
6 management of investments?

7 MR. BRYDEN: If those investment regulations  
8 were removed I don't suspect it would make very much  
9 difference. We have now broad categories of assets  
10 within which we can invest. We also have the so-called  
11 5 per cent basket which is open for non-authorized  
12 investments, if you will. My guess would be even if  
13 we did not have any investment restrictions that what  
14 we would do would not be significantly different from  
15 what we are doing now.

16 COMMISSIONER MACKINTOSH: Is this because  
17 you are conditioned to the law, or because you can't  
18 think of any more attractive investments?

19 MR. TUCK: The law keeps changing.

20 MR. LEMMON: I think the only area really  
21 where the law is restrictive, and where we feel it  
22 every day of the operation, is the 66-2/3 limitation  
23 on real estate mortgages, and that limitation is not  
24 removed by the basket. In other words, we cannot make  
25 a mortgage loan in excess of 66-2/3 per cent of the  
26 value of the property either in the basket or out of it.  
27 Whether the companies would, in fact, make 75 per cent  
28 or 85 per cent loans, or some higher percentage loans,  
29 if that was removed is a matter of opinion. I think  
30 there would be higher percentage loans made in some



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1 areas, but I would think that is the only important  
2 area where restrictions of the Life Insurance Act  
3 really prevent us from doing something we might otherwise  
4 do.

5 COMMISSIONER BROWN: Let us look at the  
6 restrictions from a point of view of the percentage of  
7 various assets you can put in with regard to restrictions  
8 on solvency -- in other words, with mortgages you can  
9 only have 66-2/3 because that is the way they would be  
10 valued. In other words, are the percentages --- do  
11 you find them restrictive -- the 5 per cent basket clause,  
12 the 10 per cent on real estate, the 15 per cent for  
13 common stocks -- you mentioned these others?

14 MR. LEMMON: You have mentioned the only  
15 really percentage limitation on us -- the 5 per cent  
16 basket and the 15 per cent in common stocks and the 10  
17 per cent in income real estate.

18 COMMISSIONER BROWN: Yes.

19 MR. LEMMON: We did ask, as you will see  
20 in the brief, the Superintendent of Insurance to lift the  
21 15 per cent restriction on common stocks. It is the  
22 opinion of the industry from the long-term point of view  
23 that should be lifted. On the other hand, with the  
24 exception of some of the long-term resident companies  
25 none of them are pressing on that at the moment. Never-  
26 theless, the industry feels it should be raised. The  
27 10 per cent limit on real estate is a fairly recent one.  
28 It was a percentage suggested by the industry at the  
29 time of the revision of the Act. I believe it is  
30 reasonably acceptable to the industry at the moment.  
Whether it will be always in future years, I don't know.



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1                   The 5 per cent basket is also a new one  
2   lifted from three a year ago. The superintendent tossed  
3   back at the industry at that time that although very  
4   few companies used the basket up to that time, those  
5   few that had used it obviously wanted it raised, the  
6   others were not all that interested. I think some  
7   companies would still like to use five percent.  
8   I am not sure that that is industrywide.

9                   COMMISSIONER BROWN: Then, let us move on to  
10   the measurement of the solvency which is also part  
11   of the whole picture, is it not?

12                  MR. LEMMON: Yes.

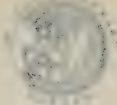
13                  COMMISSIONER BROWN: In other words, the  
14   basis on which your assets are valued for this solvency  
15   reserve fund.

16                  MR. LEMMON: Yes.

17                  COMMISSIONER BROWN: In that the only point  
18   which has been taken up in your brief is the question  
19   of using the amortized value for the measurement of  
20   municipal securities and I gather there has been a  
21   minority of reports that is not fully in favour of such  
22   change because of the inefficiency of trading  
23   operations.

24                  Now, to what extent do the use of amortized  
25   values on federal and municipal governments and their  
26   securities inhibit trading?

27                  MR. LEMMON: Well, Mr. Chairman, if I might,  
28   this is a matter of discussion within the industry  
29   itself. When we asked for the extension of the  
30   amortized principal to other types of bonds, namely,



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1 municipals, as you are aware there was a minority view  
2 of this industry felt quite strongly that it does.  
3 Certain companies felt that it does not.

4 You understand the background of that,  
5 of course, that if you have a bond where you can  
6 claim for valuation purposes par for a 3 per cent, say,  
7 and that 3 per cent bond is selling at 85 in the market  
8 and you sell it you lose in fact the protection of  
9 that value for annual statement purposes.

10 There is a feeling there would be a dis-  
11 inclination to sell that bond even though it might  
12 be a desirable sale rather than lose that protection  
13 of par value for statement purposes rather than current  
14 market. Some of the rest of us feel  
15 that it is no more deterrent, the amortized value  
16 is no more a deterrent than the book value. I do  
17 not think the industry could present a united front  
18 on that one. Some of us feel it is not a major deterrent  
19 to trading and other members of the industry feel  
20 that it is. We have not any statistics to prove it  
21 one way or the other.

22 COMMISSIONER BROWN: How real are these  
23 measurements of solvency in a market like

24 the present when you have got an amortized basis of  
25 valuation as such a large proportion of your whole  
26 investment?

27 MR. LEMMON: Well, you realize, of course,  
28 Mr. Chairman, that in the United States they permit  
29 the use of amortized values. Not only do they permit  
30 the use of amortized values, but they require the use



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1 of amortized values for your statements at the end  
2 of the year on the theory that as long as the bond  
3 remains in good standing and there is no doubt  
4 whatever about the payment of interest or sinking  
5 funds or principal at maturity then why should a life  
6 insurance company's assets fluctuate in value due to  
7 changes in interest rates and bond prices change in  
8 value on the market?

9 Bond prices change in value on the market  
10 for two reasons. One is a change in the basic interest  
11 rate structure and the other is some change in the  
12 credit rating of the borrower itself. We are not dis-  
13 missing the latter really because the United States  
14 by use of ratings for securities attempts to eliminate  
15 those from the amortized list. So when you are only  
16 talking about those bonds about which there is no  
17 question about the type of interest or interest rate  
18 or principal, the philosophy is that a life insurance  
19 company in a long term transaction, not being subject  
20 to the presentation of liabilities on demand as a  
21 chartered bank is, for instance, could afford to  
22 purchase bonds and hold them through to maturity on  
23 the yield on which they were purchased, and get this  
24 money in accordance with the contract and not really  
25 be concerned with fluctuations during it.

26 It is the feeling of a number of the members  
27 of the industry that to value life insurance companies'  
28 assets or particularly the security section of them  
29 on market values at the end of the year is to put the  
30 life insurance companies on an arbitrary basis as of a





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1 given date which is not the realistic value of the  
2 nature of a life insurance company's operation.

3 COMMISSIONER BROWN: I gather from the  
4 brief that the external companies operating in Canada  
5 have their assets valued on a market value basis.

6 MR. LEMMON: That is right.

7 COMMISSIONER BROWN: Why are the different  
8 restrictions imposed?

9 MR. LEMMON: I could suggest that that  
10 question be levied at the superintendent of insurance  
11 because he is the one who lays down the regulations,  
12 but fundamentally I believe -- and again perhaps I  
13 am putting words in his mouth that might better come  
14 directly from him -- that he has not control over the  
15 total operations of those companies but only over one  
16 little segment of them and they may well be put on  
17 a liquidating basis at any date. In other words,  
18 if a company organized under the laws of Timbuctoo came  
19 in to do life insurance business in Canada and then  
20 decided some years later they did not want to do life  
21 insurance business in Canada any more, you might find  
22 it very difficult to pursue them to Timbuctoo and be  
23 on the basis of reinsuring the liabilities with some  
24 other companies in Canada and he might probably in  
25 that case get it best on the market value of the  
26 securities deposited. That is not the way of purchasing  
27 the obligations of a purely Canadian company. Are you  
28 clear on that?

29 COMMISSIONER BROWN: Yes.

30 MR. TUCK: There is no statutory requirement



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1 for an insurance company to maintain any surplus in  
2 Canada comparable to the surpluses that Canadian companies  
3 do in fact have. If there was such a requirement for  
4 a surplus of 6 per cent, 8 per cent, 10 per cent, the  
5 superintendent might look differently at the market  
6 value point which Mr. Lemmon has discussed.

7 COMMISSIONER BROWN: As a point of information  
8 this computation of market value for the external  
9 companies, does this result in assets being written  
10 up, as well as being written down? Is it below the  
11 cost of market or market?

12 MR. TUCK: Year end market.

13 COMMISSIONER BROWN: In other words, the  
14 common shares that are given out?

15 MR. LEMMON: As the market goes up and  
16 down.

17 MR. BRYDEN: You, Mr. Westwater, do not  
18 write up or down your particular securities. These  
19 market values come off at the valuation for solvency  
20 purposes. You do not internally write them up.

21 MR. WESTWATER: No, for the purposes  
22 of a solvency review we are required to use market  
23 value and appreciation in common stocks may mean, of  
24 course, that the 15 per cent limit has been exceeded  
25 and we have then not been adding stocks to our port-  
26 folio in which event we are obliged to restrict our  
27 purchasing activities until that situation is corrected  
28 or until we put out some other form of guarantee. That  
29 is one of our complaints, as I say, against the existing  
30 regulations on market value.



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proceeding activities until that situation is corrected  
or until we put out some other form of guarantee. That

is one of our limitations, as I say, against the existing  
regulations on market value.



1 COMMISSIONER BROWN: On the Canadian market  
2 valuation can you clarify one point for us? " Each  
3 individual security is valued at the lower of book  
4 or market?

5 MR. LEMMON: There are two columns in our  
6 annual report ---

7 COMMISSIONER BROWN: I am leaving out the  
8 ones that have to be done on an amortized basis, the  
9 ones that have to be done on a market.

10 MR. LEMMON: I am not sure what you mean.  
11 In our return to the superintendent of insurance at  
12 Ottawa there are four columns, the par value, book value,  
13 amortized value and market value -- four different  
14 columns and your total is the sum of amortized values,  
15 book values, market values, and this is the total  
16 values that he permits for statement purposes. We  
17 do not change the book values year by year.

18 COMMISSIONER GIBSON: In your statements?

19 MR. LEMMON: In our statements.

20 COMMISSIONER GIBSON: You do not change them?

21 MR. LEMMON: We do not.

22 COMMISSIONER GIBSON: In other words, if  
23 the market goes up you do not mark your stock up?

24 MR. LEMMON: No.

25 COMMISSIONER BROWN: You did mention that  
26 he looks at the aggregate total, not individual securities?

27 MR. POYNTZ: But he does not add it in your  
28 insurance.

29 MR. LEMMON: Amortized to par at maturity.  
30 In certain cases companies have written down the book





MR. LEMMON: On the Canadian market

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1 value of securities purchased for reasons best known  
2 to themselves below their original cost. That may  
3 be an arbitrary write down or it may<sup>be</sup> because they think  
4 the security is impaired. They do not have to carry  
5 it at the amortized cost in their books.

6 MR. BRYDEN: If the aggregate total is  
7 greater than the book values then the book values are  
8 retained and if, alternately, the aggregate total  
9 is less than the book value then there has to be some  
10 provision made on the liability side of your balance  
11 sheet to carry it usually doing it by setting aside  
12 some part of your surplus account for that purpose.

13 COMMISSIONER GIBSON: Equal to the rate  
14 that is down on your asset side.

15 MR. BRYDEN: As a result you might write  
16 some down. You could write those down and might be  
17 suffering some distortion or something of that kind  
18 but in normal practice it is just your book values  
19 for that purpose.

20 COMMISSIONER GIBSON: Supposing you have  
21 a certain stock on your books which you have purchased  
22 at a price which is much below current market value,  
23 let us say purchased at 30 and is now selling for 60.  
24 Then you bought some more at 80 and it goes down to  
25 60, do you have the one account of all the stock and  
26 treat it as one item or are there two separate accounts?

27 MR. BRYDEN: I think most companies take  
28 an average book price of stock of that kind.

29 COMMISSIONER GIBSON: If it is the same as  
30 what you already have you would take an average book



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Toronto, Ontario

- 2438 -

1 value?

2 MR. BRYDEN: Yes.

3 COMMISSIONER GIBSON: And providing the  
4 average book value was below the average market value  
5 it would stay that way.

6 MR. BRYDEN: Yes.

7 THE CHAIRMAN: We will now adjourn until  
8 a quarter to two.

9  
10 (At 12.10 P.M. the hearing adjourned until 1.45 P.M.)

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(At 1:45 p.m. the meeting adjourned.)



1 On resuming at 1.45 P.M.

2 THE CHAIRMAN: We will now resume, gentlemen.

3 COMMISSIONER GIBSON: Mr. Chairman, there  
4 are one or two questions relating to our discussion this  
5 morning that we overlooked asking about. I want to  
6 ask them now in any case. One question I meant to ask  
7 but did not had to do with the commission system for  
8 insurance agents as against the salary system. I gather  
9 that both systems are used to some degree; most companies  
10 use mainly the commission system but one or two use a  
11 salary system. Do you care to make any comment about  
12 the effectiveness and usefulness of the two ways of  
13 selling insurance?

14 MR. BRYDEN: Mr. Chairman, I must confess  
15 that I am not too aware of the companies that use a  
16 salary system as such.

17 Most agents are under contract which is based  
18 on a percentage of the first premium, a smaller percentage  
19 of the second and then another still smaller commission  
20 for about the next 8 years. I would have thought that  
21 the predominant method of remuneration in the insurance  
22 sales business, although I know that all companies have  
23 assorted methods of weighting and so on in respect to  
24 these contracts to produce what they hope will be the  
25 best results.

26 As far as the straight salary contract is  
27 concerned, I am not particularly aware of that.

28 MR. POYNTZ: Mr. Gibson might be referring  
29 to what some companies use during the early stages of  
30 a salesman's career.



On resuming at 1.45 P.M.

THE CHAIRMAN: We will now resume, gentlemen.

Continued from page 1.

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that I am not too aware of the companies that use a salary system as such.

Most agents are under contract which is based on a percentage of the first premium, a smaller percentage of the second and then another still smaller commission for about the next 8 years. I would have thought that the predominant method of remuneration in the insurance sales business, although I know that all companies have assorted methods of weighting and so on in respect to these contracts to produce what they hope will be the best results.

As far as the straight salary contract is

concerned, I am not particularly aware of that.

MR. FOYNT: Mr. Gibson might be referring

to what some companies use during the early stages of

business.

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1 COMMISSIONER GIBSON: No, sir, I was told  
2 that one of the British companies was using a salary  
3 system.

4 MR. WESTWATER: We have a mixed system.  
5 Perhaps I should describe it as a basic salary which is  
6 related to different quotas on volume of production  
7 expected from the man, and we bonus him on volume over  
8 that at the end of the year. In addition we pay a small  
9 commission on each sale, so it is really a mixed system.  
10 The salary gives him basic security and we find that  
11 it appeals to us. We think we have a higher quality of  
12 man which we can attract in the first place with this  
13 salary security behind the contract. Without the  
14 commission on the sale or the bonus on the total volume  
15 it would lack the necessary incentive to the insurance  
16 salesman.

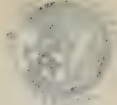
17 COMMISSIONER GIBSON: It still is basically  
18 an incentive system with a minimum salary arrangement?

19 MR. WESTWATER: That is right. It is not  
20 so very different from the drawing account system I  
21 think that some of the companies operate in respect to  
22 salaries. It is a contractual amount of money.

23 MR. HOLMES: That is in respect to the ordinary  
24 business, but yours is somewhat a specialized business.

25 MR. WESTWATER: That is what I was referring  
26 to: The ordinary business.

27 MR. HOLMES: In the ordinary business you  
28 have very little control of a man's time and it seems  
29 essential that you have a system from which you will  
30 get results, unless you use a salary system and cut them



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1 right off when they fail to maintain a quota, which is  
2 practically a commission system anyway. If you cut them  
3 off when they fail to make their quota you have practically  
4 a commission system.

5 COMMISSIONER GIBSON: But as it stands now  
6 some of the Canadian companies do pay sort of a minimum  
7 amount during the learning period, is that correct?

8 MR. POYNTZ: That is right.

9 COMMISSIONER GIBSON: And you have no particular  
10 comment you want to make about this system of selling  
11 insurance? You are quite satisfied with it?

12 MR. BRYDEN: I should think it was the  
13 most effective method of gaining the full attention and  
14 effort of the field staff because certainly their income  
15 depends on their degree of success. In early years, or  
16 in cases of new agents, what one normally does is set  
17 up in effect a salary. It is an advance at a certain  
18 level and it continues for a certain time based on the  
19 production performance, so that you give a certain limit  
20 of time and if the production is not meeting the require-  
21 ments then the chances are that the man is not going  
22 to be successful and the contract is terminated.

23 COMMISSIONER GIBSON: Has the cost of selling  
24 insurance per dollar of insurance been increasing or  
25 decreasing, or what over the years? Have you any figures  
26 in that regard?

27 MR. HOLMES: I think over a long period there  
28 has not been a great deal of change. Since the war there  
29 has been quite an increase but that was due to a decrease  
30 during the war period, I think. I doubt if there has



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1     been a great deal of change over all in the cost of  
2     actually selling insurance from early days.

3                 MR. POYNTZ: Mr. Chairman, in regard to the  
4     system of agency operation, which is really a Canadian  
5     system -- incentive system-- some information appears in  
6     paragraph 3.20 at page 22 of the submission. In 1960  
7     Canadians held life insurance in an amount 2.2 times  
8     their total wages, salaries and the earnings of the  
9     self-employed. The corresponding ratio in the United  
10    States is 1.7, and in other countries it is lower than  
11    that. The British ratio is lower than 1.7, and it is  
12    in that country that there may be more sales on a  
13    salary basis than anywhere else.

14                COMMISSIONER BROWN: Have you got comparative  
15    costs per \$1,000 life insurance sales for the different  
16    companies?

17                MR. POYNTZ: No, I am sorry.

18                COMMISSIONER BROWN: Does it cost more to  
19    sell \$1,000 worth of life insurance in Canada than  
20    in the United States?

21                MR. POYNTZ: I would say no, but I have  
22    not any figures in that regard Mr. Brown.

23                COMMISSIONER BROWN: You did mention that  
24    possibly this was the more effective way of doing it.

25                MR. POYNTZ: Yes.

26                COMMISSIONER BROWN: Is it a more expensive  
27    way of doing it?

28                MR. POYNTZ: It is possible, yes. It is  
29    not very different from the United States system. It  
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1 European countries where the ratio is much lower than  
2 even the 1.7 in the United States. I have not got  
3 figures on the sales.

4 COMMISSIONER BROWN: Another point that  
5 arose out of this discussion, and this is probably even  
6 more difficult to get at; life insurance is a very  
7 effective way of mobilizing savings, but is it an  
8 expensive way of accumulating savings? Have you any  
9 idea what the cost is of accumulating life insurance  
10 savings? Your 25 per cent of total savings would take  
11 place, but is the cost of accumulating these savings  
12 successful?

13 MR. HOLMES: I think of the people we get  
14 to save it is not an expensive way of accumulating  
15 savings. I think anybody else who sells savings to  
16 the same type of people on a regular basis like we do  
17 would have to pay higher costs. You find that in  
18 mutual funds. They pay very similar costs in selling  
19 as the life insurance companies do. But, in so far  
20 as natural savers it is a fairly expensive system. It  
21 is much cheaper to put the savings in the bank.

22 COMMISSIONER BROWN: I suppose credit unions  
23 accumulate savings cheaper?

24 MR. HOLMES: Credit unions accumulate savings  
25 cheaper, but their overhead on savings is provided through  
26 the staffs of recognized companies. It is not a  
27 professional job to the same extent. It is a co-operative  
28 sort of job which has a certain appeal to people who give  
29 their time. The accountant gives the space and there is  
30 a certain amount of other work done without a great deal



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1 of expense. It is the natural savers who save but we  
2 reach out a little further than that.

3 MR. POYNTZ: It is probably fair to say  
4 that if we did not have this kind of agency system, which  
5 is a fairly attractive incentive plan for salesmen, we  
6 would not really be a factor in the savings stream at  
7 all.

8 COMMISSIONER BROWN: I think we agree, as  
9 I say, that it is a very effective way of saving. I  
10 was trying to figure out if there was any measure of  
11 how expensive a way to save it is.

12 COMMISSIONER GIBSON: In Great Britain  
13 Canadian companies compete with the British companies.  
14 Do they do this fairly effectively?

15 MR. POYNTZ: Yes, fairly effectively.

16 COMMISSIONER GIBSON: They have added quite  
17 a lot to their business?

18 MR. POYNTZ: Yes, Canadian companies have  
19 done well in Britain but I think probably the reason is  
20 that they have taken a kind of agency system there and  
21 it is that which has done this rather than a comparison  
22 of costs.

23 COMMISSIONER GIBSON: Are you selling much  
24 the same article?

25 MR. POYNTZ: Much the same. I would think  
26 the British sell more annuities than the Canadian  
27 companies do, but generally speaking, much the same.

28 MR. BRYDEN: Mr. Gibson, this may throw  
29 some light on the question you are asking. The life  
30 insurance fact book in the United States takes the



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1 life insurance company dollar in 1960 and breaks it  
2 down as to source and disposal. In 1960 in the United  
3 States among the operating expenses, commissions to  
4 agents are listed as 7.5 cents. We have tried to reproduce  
5 the same thing in Canada. In the Canadian fact book  
6 again in 1960 the commission agents are listed at 5.5  
7 per cent. On that basis one would assume that our  
8 actual commission costs are less than they are in the  
9 United States.

10 COMMISSIONER GIBSON: This is the percentage  
11 of the dollar -- ?

12 MR. RIEDER: This is the percentage of the  
13 premiums plus the net investment income, to give you  
14 your dollar, and the outgo is broken down, and of the  
15 total income the commission's two agents in the United  
16 States were 7.5 and here, 5.5 cents.

17 THE CHAIRMAN:  $5\frac{1}{2}$  cents in Canada?

18 MR. BRYDEN: Yes.

19 COMMISSIONER BROWN: One other question;  
20 you mention in your sales force that you had a large  
21 turnover. I assume all of the companies are now using  
22 aptitude tests and this sort of thing?

23 MR. BRYDEN: Yes.

24 COMMISSIONER BROWN: In trying to pick out  
25 those who are worthy of training as salesmen you  
26 use these tests. Has this been effective in reducing  
27 your costs of acquiring an efficient salesman?

28 MR. BRYDEN: Well, we would like to think  
29 that it had; just how effective it has been is open  
30 to question. Certainly you take on a lot of new





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THE CHAIRMAN: 5 1/2 cents in Canada?

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1 representatives over the years and there is a large  
2 number of them, despite all the aptitude tests and  
3 everything else, that turn out not to be able, if you  
4 will, to just merchandise money for future delivery.  
5 There is a large number that disappear out of your work  
6 force after the first, one, two or three years. Usually  
7 once they last that long the rest of them pretty well  
8 have a rather long-term career.

9 COMMISSIONER BROWN: Is that experience  
10 pretty general among all companies; the same percentage?

11 MR. BRYDEN: I think that is one of the  
12 biggest problems in the agency end of the business;  
13 Selection of personnel and keeping them. On the other  
14 hand, I do not think the turnover in your agency force  
15 is any greater than it turns out to be in your administrative  
16 staff where again you have a considerable number leaving  
17 you after a relatively short work period, although the  
18 reasons for it are a little different. I would think  
19 that is a fair example of what seems to go on.

20 MR. POYNTZ: We have been concerned about  
21 turnover of our agency force but in comparing it with  
22 sales forces in other businesses, that turnover is not  
23 relatively greater.

24 COMMISSIONER BROWN: Do you think they are  
25 getting your discards and you are getting theirs?

26 MR. POYNTZ: I hope not.

27 MR. BRYDEN: I should try not to.

28 MR. POYNTZ: I think one of the results of  
29 selection and aptitude is that the survivors of the  
30 first two or three years are better trained and qualified



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1 now than they were some years ago, but it has not  
2 actually had much effect on the early turnover.

3 MR. BRYDEN: I think the big advantage of  
4 the aptitude tests and the rest of those things is that  
5 they at least screen out those that are sure to be failures.  
6 It certainly does not catch all of them, but I think  
7 it is very helpful in administering the field force.

8 COMMISSIONER GIBSON: Do you get many  
9 trained people who have specialized training like law  
10 and accounting going into the sales field these days?

11 MR. BRYDEN: I would say not too many from  
12 our experience.

13 COMMISSIONER GIBSON: There are more of these  
14 people now around than there used to be?

15 MR. POYNTZ: That is rather rare I would  
16 think, Mr. Gibson.

17 MR. HOLMES: I think that perhaps in law  
18 there are more today than there were a number of years  
19 ago, but we have a certain number of trained men in  
20 certain agencies where you have a very high calibre of  
21 selection and training. We certainly have quite a large  
22 number more than before.

23 MR. BRYDEN: Of course you require a fairly  
24 high degree of competency when you get into business  
25 insurance and estate administration and that sort of  
26 thing.

27 COMMISSIONER GIBSON: That is what I had in  
28 mind.

29 MR. BRYDEN: So you have a fair sample of  
30 people right across. Some are in that tight market and



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1 some are in the other markets.

2 COMMISSIONER BROWN: There is one other  
3 field we discussed briefly this morning that I should  
4 just like to re-open, and this has reference to the  
5 problem of one company taking over another company, or  
6 amalgamating. Now, the Act as it stands, as I understand  
7 it, prohibits a company from buying the shares of  
8 another company. The question I did not ask directly  
9 this morning and should like to now ask is whether under  
10 the Act there is any prohibition against one company  
11 offering additional treasury stock for shares in the  
12 other company, and if there is -- well, I will ask the  
13 first question.

14 MR. BRYDEN: I do not think that is covered  
15 in any prohibition in the Act. It would certainly be  
16 covered under the limitation of not more than 30 per  
17 cent of the capitalization of any one company, so that  
18 I do not think you could effectively do what you suggest  
19 under the present Act. Mr. Tuck, have you any information  
20 on that?

21 MR. TUCK: I do not see any reference in the  
22 Act to a bar of the type you suggest, but there are  
23 some companies with authorized capital only partly  
24 issued. There are only very few instances of treasury  
25 stock being issued. I think that Mr. Bryden has covered  
26 the point although I am not sure that I understood the  
27 question in relation to the 30 per cent rule.

28 COMMISSIONER BROWN: I did not mention the  
29 30 per cent rule.

30 MR. BRYDEN: No, I mentioned that.





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COMMISSIONER BROWN: I did not mention the

30 per cent rule.



1 MR. TUCK: Mr. Bryden mentioned that rule.

2 MR. BRYDEN: My point was that even if you  
3 did have a treasury stock issue and were able to acquire  
4 100 per cent of the stock of another life company I  
5 think you would then be stopped by the prohibition that  
6 you cannot own more than 30 per cent of the shares of  
7 any other company. So, it would seem to me that would  
8 be the prohibition in respect to an attempt to do what  
9 you have suggested.

10 COMMISSIONER BROWN: What I was getting at  
11 was another way of bringing about an amalgamation.

12 MR. BRYDEN: I would think you would be  
13 caught on that rule.

14 COMMISSIONER BROWN: Has it ever been tried?

15 MR. HOLMES: You could re-insure the whole  
16 company with the approval of the treasury board and  
17 in that way take over the whole company.

18 COMMISSIONER BROWN: In other words you  
19 could buy the assets of another company?

20 MR. BRYDEN: And the liabilities.

21 MR. HOLMES: If it goes through both companies,  
22 the shareholders and policyholders and goes to the  
23 treasury board and it gets their approval. There has  
24 always been that method of taking over a company.

25 COMMISSIONER BROWN: Has this been done?

26 MR. HOLMES: Oh, yes it has been done.

27 MR. TUCK: Not in recent years except for  
28 the one instance that was mentioned this morning. In  
29 the last year or two two of the smaller companies  
30 amalgamated, but that is the only instance for 30 years,



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1 I believe.

2 MR. POYNTZ: I would say that is right.

3 COMMISSIONER BROWN: Following on this, the  
4 question or point was brought out that there was an  
5 apparent policy against this acquisition because it  
6 would reduce competition in Canada. When an American  
7 company buys out a Canadian company and that American  
8 company is already operating in Canada on its own, does  
9 this not create the same situation; there is a reduction  
10 in the number of companies in the market? Let us use  
11 company names. When Aetna bought out Excelsior, did one  
12 of them cease operating in Canada?

13 MR. TUCK: Aetna is going to cease doing  
14 new business in Canada, but I think that is the only  
15 instance, sir. In other cases the non-resident life  
16 company that has acquired control of the Canadian  
17 company has not been doing life business in Canada.

18 COMMISSIONER BROWN: Then this recent example  
19 would appear to be against the policy that was enunciated  
20 by the superintendent in his 1959 report to which reference  
21 was made earlier?

22 MR. POYNTZ: I think that is true because  
23 it did take the United States company out of the Canadian  
24 market and put all their business in the acquired  
25 Canadian company.

26 MR. HOLMES: There was no prohibition  
27 of the United States company buying the Canadian company's  
28 stock. They did not buy the whole of the Excelsior  
29 stock.

30 COMMISSIONER BROWN: They just bought control.



MR. POYNTE: I would say that is right.

COMMISSIONER BROWN: Following on this, the

question or point was brought out that there was an

apparent policy against this acquisition because it

would reduce competition in Canada. When an American

company buys out a Canadian company and that American

company is already operating in Canada on its own, does

this not create the same situation; there is a reduction

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1 COMMISSIONER GIBSON: How relevant is this  
2 to the idea that a number of companies should not be  
3 reduced? Have they been increasing substantially in  
4 the last 15 or 20 years? Is there a fairly hard  
5 degree of competition? I gather from what you say  
6 there is.

7 MR. POYNTZ: Very hard.

8 COMMISSIONER GIBSON: There is no individual  
9 company or three or four companies doing all the business?

10 MR. POYNTZ: No.

11 COMMISSIONER GIBSON: Do you think this  
12 concept is a particularly relevant one?

13 MR. POYNTZ: I do not think it is, Mr. Gibson,  
14 with the large number of companies now operating.

15 MR. RIEDER: It has reference to the number  
16 of Canadian companies that are now Canadian controlled.  
17 I am not sure how many there are.

18 MR. POYNTZ: There are 58, 36 of which are  
19 federally registered and 22 provincially registered,  
20 as well as 63 non-resident companies operating in  
21 Canada.

22 MR. HOLMES: This concept goes back a long  
23 way. There was a time in 1917 when the Sun Life went  
24 through all the necessary requirements of re-insuring  
25 the Manufacturers Life. We have gone through the  
26 requirements but Mr. Finlayson vetoed it.

27 COMMISSIONER GIBSON: I am aware of the  
28 circumstances. We are talking about this in relation  
29 to the desirability of obtaining a considerable degree  
30 of Canadian control, and it seems to me that is pitting





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1 one against the other.

2 One other point that was brought up this  
3 morning but was not pursued was of interest to me.  
4 Mr. Brown asked you if you thought of any different  
5 system of regulation. That is, just having a board  
6 rather than a single superintendent in your particular  
7 area. Possibly such a board might regulate a wider  
8 area of the financial system and inspection system.  
9 You told us that you thought well of the present system.  
10 Do you see any objection to a board as opposed to  
11 this system; such as a three-man board to include the  
12 banking system as well as the insurance system?

13 MR. BRYDEN: Mr. Gibson, are not most of  
14 these separate financial intermediaries specialized  
15 occupations?

16 COMMISSIONER GIBSON: I think they are.

17 MR. BRYDEN: Certainly the insurance  
18 business is and our present Superintendent of Insurance  
19 is a very able man, and his staff is very able. I  
20 would suspect that the Inspector General of Banks has  
21 a completely different set of facts and figures to deal  
22 with. Whether all of it could be successfully put  
23 under one board which would handle the whole thing,  
24 or not, I would very much doubt. My suspicion is that  
25 the present method is preferable.

26 COMMISSIONER GIBSON: The reason for raising  
27 the question, and what particularly brought it to mind,  
28 is that the Superintendent of Insurance is now acting  
29 in a supervisory capacity in relation to certain other  
30 branches of the finance business. This suggests perhaps



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1 some expansion in this area. I merely ask you for your  
2 thoughts, not expressing an opinion at all.

3 MR. BRYDEN: I do not think we are expressing  
4 any opinion either other than the present system seems  
5 to work extremely well.

6 COMMISSIONER GIBSON: You do not see anything  
7 fundamentally wrong with this idea of a board that might  
8 cover most of the financial system?

9 MR. BRYDEN: I do not think you could say  
10 it was fundamentally wrong. Again all I can reiterate  
11 is that the present system seems to function very well.

12 COMMISSIONER GIBSON: Emphasizing the  
13 point that you would want to have a man that really knew  
14 the business in charge of that particular kind of business?

15 MR. BRYDEN: That is right.

16 MR. RIEDER: One member of the board would  
17 have to specialize in our field.

18 COMMISSIONER GIBSON: So that if you had a  
19 board you would have probably each of the members  
20 being an expert in respect to certain parts of the  
21 financial business?

22 MR. BRYDEN: The present Superintendent  
23 I gather has the rank of a deputy minister in the  
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1 COMMISSIONER BROWN: Referring to one other  
2 thing which was touched on this morning, you were  
3 talking about the present regulations with respect  
4 to valuation of securities and I think there was  
5 mention of a 66-2/3 per cent restriction on the markets.

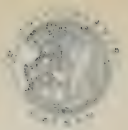
6 Have you any comments on any of the other  
7 qualifications; for instance, the five years Dominion  
8 requirement for preferred shares or the seven years  
9 Dominion requirement for common shares.

10 -----MR. LEMMON: I think not, Mr.Chairman.  
11 This -- received -- very thorough discussion within  
12 the industry at the time of the last revision of the  
13 Insurance Act. There are certain limitations on that  
14 as a test we can realize, but that taken in conjunction  
15 with the fact we are allowed to invest 5 per cent of  
16 our efforts free of these restrictions seems to be a  
17 workable test; a five year test on prepared and seven  
18 years on common, and the earnings test for various  
19 types of debentures and that sort of thing have evolved  
20 over the years, and they are easily administered and  
21 easily understood and seem to be workable restrictions  
22 that have meaning.

23 COMMISSIONER BROWN: On the same question  
24 I did want to find out what you thought about the  
25 removing of restrictions from percentages and the quali-  
26 fications for investments. How about the qualification  
27 that in the sense that these restrictions will apply  
28 only to your legal requirements and your surplus was  
29 free of all restriction?

30 COMMISSIONER LEMAN: We are not too far off





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COMMISSIONER LEMMON: We are not too far off



1 that situation at the moment with the 5 per cent  
2 basket, and generally speaking the surpluses to the  
3 companies  
4 Canadian life are in the area of 6 or 7 per cent of  
5 assets, and we are not very far off that position at  
6 the moment.

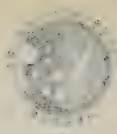
7 COMMISSIONER LEMAN: What has been your  
8 experience over a period of years on the yield of  
9 basket assets; how does it compare with the yield  
10 of regular assets?

11 MR. BRYDEN: I do not know whether any of  
12 the companies have filled out a separate yield on their  
13 basket investments. We have all sorts of breakdowns  
14 on the total assets in various sections of it, but I  
15 do not think -- at least, we have not filled out a  
16 separate yield on these particular securities that  
17 were involved in the basket. My guess would be that  
18 it probably is not too far from your normal situation  
19 and it probably is occasioned for different reasons.  
20 One reason is that you may include in your basket some  
21 securities on which the yield is relatively low and yet  
22 which may have a capital gain in sight. On the  
23 other hand, you may put into your basket some types  
24 of real estate, for example, where the yield is probably  
25 higher than normal and my suspicion would be that you  
26 are probably not far from the average. Would you agree?

27 MR. POYNTZ: I would think so.

28 MR. HOLMES: Thinking of ourselves, I would  
29 say that we have had some of those kinds.

30 COMMISSIONER LEMAN: Would you say that in  
general life companies would be looking for -- you use



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COMMISSIONER LEWIS: Would you say that in

General life companies would be looking for -- you was





1 the basket clause mostly for capital depreciation.

2 MR. BRYDEN: No. No, you use it quite  
3 often in situations which are not quite legal yet; in  
4 other words, the common stock that you may think highly  
5 of.

6 MR. HOLMES: There are quite a number of  
7 people who bought uranium bonds and they turned out to  
8 be a very good investment, but they were not to be  
9 dealt with other than by the basket.

10 THE CHAIRMAN: What about leasebacks?

11 MR. HOLMES: They do not need to be in the  
12 basket, but real estate other than leasebacks would  
13 have to be in the basket.

14 MR. BRYDEN: The leasebacks themselves get  
15 about 10 per cent relative to real estate.

16 COMMISSIONER BROWN: On this question of the  
17 common stock where you suggest increases of 15 and 25  
18 per cent, there are a few things I would like to get on  
19 the record. The first is what is the essentially  
20 different philosophy of the British companies that  
21 have larger percentages than the Canadian companies.  
22 Why do they go into common stocks?

23 MR. BRYDEN: Perhaps Mr. Westwater would  
24 like to answer that.

25 MR. WESTWATER: The philosophy is associated  
26 with the nature of our business in long term fixed  
27 liabilities and to realize this, with the maximum good  
28 to our policyholders, we must achieve the maximum yield.  
29 We believe that the common stocks would, in the long  
30 run and with a reasonably prosperous economy, in the



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1 long run they will show a better yield probably than  
2 any other class of investment. That has been our  
3 experience in the United Kingdom and we are prepared  
4 to take a chance on that in a country like Canada, too.

5 MR. BRYDEN: Would you care, Mr. Westwater,  
6 to comment on the evaluation problem in the U.K. that  
7 allows you to take that position.

8 MR. WESTWATER: Of course, that is rather  
9 the reason why the domestic -- Canadian companies  
10 do not invest in common stock. British companies  
11 have no restrictions on their evaluation basis and  
12 the companies select whatever rate of interest,  
13 mortality, and so on that they wish, and it is a  
14 valuation of the liabilities. If for any reason the  
15 value of assets is depressed, then he is free to  
16 relax his standards and he is not embarrassed. He  
17 does not then have to show a technically insolvent  
18 position. There is rigidity in the Canadian system  
19 because of the regulations by the government and this  
20 is significantly inherent in the contracts which Canadian  
21 companies issue on cash values. Canadian cash values  
22 are linked, I think in most cases, to reserve values  
23 and in Britain a great many companies can guarantee  
24 cash values but not all go so far as that and none  
25 link them in a contractual way with reserves.

26 COMMISSIONER BROWN: Presumably you must  
27 operate within certain limits. You cannot suddenly  
28 decide to put this on an 8 per cent basis.

29 MR. WESTWATER: No, but every company makes  
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1 how the reserves have been arrived at, and I know --  
2 there is power for the Board of Trade to petition  
3 the Courts and other companies, I suppose, if they  
4 thought the whole business was ridiculous, they could  
5 proceed to the law in that way.

6 COMMISSIONER BROWN: So there are certain  
7 limitations?

8 MR. WESTWATER: Limitations of practicality.

9 COMMISSIONER BROWN: It does give flexibility  
10 for the market structure.

11 MR. WESTWATER: Yes.

12 COMMISSIONER BROWN: If interest rates  
13 force down values the use of liability is on the same  
14 basis?

15 MR. WESTWATER: That is right.

16 MR. BRYDEN: A lot of them we have tried  
17 to set forth in fair detail on page 84, section 5.75,  
18 from there on, and we have attempted to explain the  
19 differences in the two countries.

20 COMMISSIONER BROWN: When we finished before  
21 the luncheon adjournment we were discussing this question  
22 of the valuation at the end of the year and we have the  
23 four columns; the par value, the book value, the amortized  
24 value and the market value. I would just like to get  
25 straight the rigidities, if any, that come into the  
26 investments that are related to market value and ignore  
27 the amortized ones at the moment.

28 As I understand it, you take the total of  
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1 that affect whether the surplus has to be touched or  
2 not. Now, if we take a hypothetical example that may  
3 come out the same, then there is no adjustment to  
4 surplus at the end of the year, but, of course, within  
5 the range that there will be some that will be written  
6 at book value and others below book value. Now, if you  
7 sell, say, in February or January something at the market  
8 value which is below the other value, how do you adjust  
9 for this; do you adjust for this by writing off against  
10 surplus the actual production against surplus, or have  
11 you power to write off some other assets?

12 MR. LEMMON: No, it is charged against  
13 surplus; a realized loss charged against surplus in that  
14 year.

15 COMMISSIONER GIBSON: The profit would be  
16 the same; you would have to add it to the surplus?

17 MR. LEMMON: No, you may use that profit  
18 to cut down the value of the same security in your  
19 books.

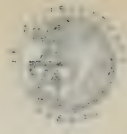
20 COMMISSIONER GIBSON: So, you are taking the  
21 last realized profit and at the same time cancelling  
22 one as against the other, but it would have to be  
23 realized?

24 MR. LEMMON: Yes, that is right.

25 COMMISSIONER BROWN: This perhaps was one  
26 of the points you were making earlier?

27 MR. LEMMON: Yes.

28 COMMISSIONER BROWN: That the rigidity in  
29 the section that is based on mortgage values is somewhat  
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1 similar to the rigidity in the section based on  
2 amortizing.

3 MR. LEMMON: Yes.

4 COMMISSIONER BROWN: And you mentioned  
5 that some companies do not regard this rigidity as  
6 very important; you are prepared to take it if there  
7 could be shown a reasonable opportunity for improving  
8 the situation that there are other companies, presumably,  
9 that do not look at it in the same way.

10 MR. LEMMON: It is a matter of degree.

11 COMMISSIONER BROWN: Could we hear some  
12 opinions from some of the others on this?

13 MR. BRYDEN: Possibly Mr. Rapsey could  
14 speak to this.

15 COMMISSIONER BROWN: I do not want to  
16 get you quarrelling.

17 MR. HOLMES: We are in a company that really  
18 does not like amortized values at all. We have been  
19 prepared to go along with them up to a point, because  
20 we feel it definitely brings in rigidity, but we really  
21 prefer that old system where we admit at times your  
22 market values become impossible for the buyers, but  
23 we had a system where the Superintendent took cognizance  
24 of that and gave special values during periods of that  
25 kind. At least you are faced with the situation as  
26 it stood and we feel that there has been a great advantage  
27 to our particular company to not have to worry about  
28 whether you were thinking of the thing being worth  
29 the market value and you had no losses on your books  
30 of sale. If you had to think of it as a market value





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that some companies do not regard this rigidity as very important; you are prepared to take it all there could be shown a reasonable opportunity for improving the situation that there are other companies, presumably that do not look at it in the same way.

MR. LEMMON: It is a matter of degree.

COMMISSIONER BROWN: Could we hear some

opinions from some of the others on this?

MR. HOLMES: I do not want to speak to this.

COMMISSIONER BROWN: I do not want to

get you quarrelling.

MR. HOLMES: We are in a company that really

does not like amortized values at all. We have been prepared to go along with them up to a point, because we feel it definitely brings in rigidity, but we really prefer that old system where we admit at times your market values become impossible for the buyers, but we had a system where the Superintendent took cognizance of that and gave special values during periods of that kind. At least you are faced with the situation as it stood and we feel that there has been a great advantage to our particular company to not have to worry about whether you were thinking of the thing being worth the market value and you had no losses on your books of sale. If you had to think of it as a market value



1 there was no loss on your books, and if it is allowed  
2 there we feel it would make a very considerable addition  
3 to our income because we do not have to worry about  
4 whether there is a loss or a profit and we looked on  
5 it that the value of that security was the market value  
6 and we would be very much adverse to having the thing  
7 made more rigid, such as is done in the United States.

8 COMMISSIONER BROWN: Why is there this  
9 reluctance to take this loss?

10 MR. BRYDEN: I would say the answer to that  
11 is that, from a balance sheet point of view at the  
12 end of any particular year if you had a substantial  
13 increase in the interest rate with a corresponding  
14 decrease in bond values, there is a limit to the extent  
15 to which you want to throw up the realized losses  
16 within a given year, and I suppose the answer to that  
17 is for fear that it may be misinterpreted when your  
18 statements come out because it certainly is offset  
19 against your surplus.

20 Now, in the throws of a major move of that  
21 kind, if you wanted to move a substantial volume of  
22 your assets on a trading basis the net loss could be  
23 quite substantial.

24 COMMISSIONER BROWN: It is really an accounting  
25 rigidity?

26 MR. BRYDEN: Yes.

27 COMMISSIONER BROWN: Because it does not  
28 change the actual situation at all?

29 MR. BRYDEN: No, it is an accounting  
30 rigidity.



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MR. BRYDEN: Yes.

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1 COMMISSIONER BROWN: What we are trying  
2 to get at is to what extent this Canadian rigidity  
3 effects the development of the capital market.

4 MR. BRYDEN: It has a restraining influence  
5 on the trading in a number of cases.

6 COMMISSIONER BROWN: How important is this  
7 situation? Is this your own estimation of the  
8 importance of it? Do policyholders look at it?

9 MR. HOLMES: I think it would be pointed  
10 out to them -- if they did not look at it themselves --  
11 by our competitors.

12 COMMISSIONER BROWN: But the answer is ---

13 MR. HOLMES: If one company has a normal  
14 increase in surplus and another company shows a reduction  
15 in surplus in the year, it would certainly be pointed out.

16 COMMISSIONER BROWN: Even if the actual  
17 situation was the same?

18 MR. HOLMES: Oh yes, because it is a  
19 very complicated business, knowing what the actual  
20 situation is, or it is a very simple business where  
21 a statement is seen where there is a loss in surplus.  
22 It is the same with such people as your Board of  
23 Directors. If you are looking at the thing from a  
24 rigid viewpoint and showing heavy losses on sales you  
25 would have difficulty getting them to agree to deal  
26 with securities freely, whereas if you get them  
27 educated to thinking that market value is the proper  
28 basis, you do not have that difficulty.

29 COMMISSIONER BROWN: Fifteen companies have  
30 gone through the process in the last few years and it



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COMMISSIONER BROWN: Fifteen companies have

gone through the process in the last few years and it



1 has affected their services through mutualization.  
2 Is that the answer to this, something that can  
3 be explained to the public? This apparently has not  
4 inhibited you in making this move.

5 MR. HOLMES: I do not think any of them  
6 have to show a list of surpluses in the process.  
7 For one reason or another they produce money from  
8 somewhere.

9 COMMISSIONER GIBSON: Mr. Holmes, you  
10 were saying you would not like to see this -- are you  
11 not inhibited by this system? There was a hypothetical  
12 example given and Mr. Brown raised the question where  
13 your book value and your market values are the same  
14 that some of the securities are under the market and  
15 some are over the market; you sell some of the securities  
16 when the market is under and you have to deduct that  
17 from your surplus, do you not, that loss? That must  
18 inhibit you to some extent like everybody else?

19 MR. HOLMES: Not if you report to your  
20 board consistently on their market value positions  
21 and selling at a loss on your book value does not affect  
22 your market value position, the value at the market.

23 COMMISSIONER GIBSON: But it still does  
24 affect your surplus or might affect it?

25 MR. HOLMES: It might affect your surplus,  
26 yes, but we have not been embarrassed by that, and we  
27 have been able to, as I say, to yield securities in  
28 a very substantial way.





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1 COMMISSIONER GIBSON: And you operated  
2 purely in relation to market forces? You have not let  
3 this particular thing concern you?

4 MR. HOLMES: No.

5 COMMISSIONER BROWN: Your suggestion is  
6 that when there is something really important like  
7 mutualization, they have found money so that it does  
8 not affect their surplus, but for trading they would  
9 not let it inhibit them?

10 MR. HOLMES: Yes, I think there was a  
11 tremendous appeal to both policyholders and to our sales-  
12 men in the mutualizations under the conditions we went  
13 through. In our case I found my biggest support on  
14 mutualization from our American managers who did not  
15 want the company to be American owned, peculiarly enough,  
16 but that was exactly the case, and there was a big  
17 support for taking your money then when you could get  
18 it and having the company run as a real insurance company.

19 MR. POYNTZ: Mr. Chairman, I think we should  
20 point out that some companies even though they favour  
21 the amortization principle for a certain portion of  
22 the assets, nevertheless do not overlook the market  
23 value situation as well. I think all companies are  
24 aware from time to time throughout the year of the total  
25 market value of their assets and do report that to the  
26 board even though they may favour the amortization  
27 principle as a standard for valuing assets -- at least  
28 a certain part of them -- and they do a vast amount  
29 of trading as well, even though they may be using  
30 amortization for part of their assets.



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1 COMMISSIONER BROWN: Have you any positive  
2 suggestions as to any method by which this question  
3 of valuation could be altered so as to reduce some of  
4 these rigidities?

5 MR. BRYDEN: Mr. Tuck, that was discussed  
6 at the legislative changes last year -- or, Mr. Lemmon,  
7 would you like to comment on it?

8 MR. LEMMON: I am not sure what Mr. Brown  
9 is driving at. There are certain rigidities come in  
10 through book value accounting. Perhaps I could go  
11 into that for a moment. In the last several years  
12 most companies have been in the position where the market  
13 value of the bond section of their portfolio has been  
14 below book value, whereas the market value of the  
15 common stock section of their portfolio has been above.  
16 In most years the excess has been more than sufficient  
17 to carry the deficiency. The problem always comes  
18 when you sell out a fairly large portion of your bond  
19 account for trading purposes and establish book losses:  
20 Should you correspondingly sell out a corresponding  
21 portion of your stock portfolio so it doesnot affect  
22 your surplus in the one year?

23 COMMISSIONER MACKINTOSH: Do you wish you  
24 had, or not?

25 MR. LEMMON: I think all companies have  
26 done it to a degree, some to a greater degree than  
27 others, but our auditors in drawing up our statement,  
28 in our particular case, seem to put great stress on  
29 the fact of being able to state our assets are valued  
30 in total at amortized cost or less and that, in effect,



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1 makes it necessary to put through a sale to realize  
2 a profit to offset a loss, if you are going to do it,  
3 and sometimes there is a greater disinclination to do  
4 that than others.

5 COMMISSIONER BROWN: I was thinking about  
6 whether there was some way you could set it up as a  
7 special fund to be reimbursed by investment? Say  
8 you sell a 3 per cent bond at discount, which is  
9 attractive to certain people because of tax advantage,  
10 and replace it with a 6 per cent bond at par: You have  
11 that additional 3 per cent income which quickly recaptures  
12 the loss you have taken. Has there been any suggestion  
13 you set it up on the books to take care of this?

14 MR. LEMMON: Yes, we have discussed this  
15 at various times with the Superintendent of Insurance  
16 and with our auditors, and neither one of them are in  
17 favour of it.

18 MR. POYNTZ: Mr. Chairman, there is a table  
19 at page 48 that I think has a bearing on this question:  
20 Table 4. h Gross Acquisitions of New Canadian  
21 Investments. This is a sample of 12 companies holding  
22 76 per cent of life insurance assets in Canada. You  
23 will see the total net investment in a year is  
24 considerably less than the total acquisitions even  
25 excluding federal governments, so as to exclude the  
26 short-term securities that may be rolled over several  
27 times in a year. So, there can't be too much inhibition  
28 from this rigidity we are speaking of. In 1961 total  
29 acquisitions were one billion one hundred and sixty-five  
30 million compared to the total net investment of





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1 499 million.

2 COMMISSIONER BROWN: Except that there  
3 would be quite a roll-over on short-term municipal  
4 maturities and also the mortgage business.

5 MR. POYNTZ: I don't believe mortgages  
6 are included here, and the short-term Governments are  
7 excluded. I don't think there is very much roll-over  
8 in Municipals. There is some.

9 You see the ratio B to C: Total Acquisitions  
10 Excluding Federal Governments, the ratio is 2.3 to 1  
11 in 1961, and that is one of the lower ratios.

12 COMMISSIONER BROWN: May I just get back:  
13 This morning I made the mistake of asking a question  
14 that was answered in the brief, and I think if you look  
15 at page 50 you will find these figures.

16 MR. McCARTHY: All maturities are included  
17 in those tables.

18 COMMISSIONER BROWN: Including mortgage  
19 maturities?

20 MR. McCARTHY: Yes.

21 MR. BRYDEN: I am sorry.

22 COMMISSIONER BROWN: I just feel a little  
23 better, that is all. The net investment under bonds  
24 is only 182.

25 MR. BRYDEN: Right.

26 MR. TUCK: Mr. Brown, the reference to the  
27 proposal put forward respecting valuation of assets ---

28 COMMISSIONER BROWN: Excuse me; whose  
29 proposal is this?

30 MR. TUCK: The proposal of the Association,



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MR. TUCK: The proposal of the Association,





1 which represented the majority of the views of the  
2 companies, is set out on page 42 at paragraph 4.20.

3 COMMISSIONER BROWN: Yes, this is kind of  
4 a half way point between using an amortized basis  
5 and the current market basis -- this is using a  
6 sliding valuation?

7 MR. BRYDEN: Yes. I draw your attention  
8 to the last sentence:

9 "The use of an average of three year-end  
10 market values, it was believed would give  
11 a more accurate picture of the long-term  
12 value of corporate securities and shares  
13 and would give the companies time to adjust  
14 their balance sheets to new situations."  
15 As you say, it is a half-way proposal.

16 COMMISSIONER BROWN: Would this contribute  
17 to rigidities or not?

18 MR. LEMMON : We think it would contribute  
19 to -- part of the disinclination to invest in ordinary  
20 shares is due to a market break, such as we saw this  
21 spring, hitting you just on the valuation date, which  
22 could make a rather serious impression on the surplus  
23 of any company who had a substantial portion of their  
24 assets in ordinary shares, whereas if you were insulated  
25 against that particular type of thing by a three-year  
26 average, many of the companies would be more inclined  
27 to participate in equities to a greater extent.

28 COMMISSIONER BROWN: How about a quarterly  
29 average on the current year?

30 MR. LEMMON: Any sort of average would be



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to participate in equities to a greater extent.

COMMISSIONER BROWN: How about a quarterly

average on the current year?

MR. LEMMON: Any sort of average would be



1 an improvement over one day.

2 COMMISSIONER GIBSON: I take it this is  
3 not a unanimous view?

4 MR. LEMMON: Mr. Holmes, I think, has  
5 expressed the other view.

6 COMMISSIONER GIBSON: You say with regard  
7 to excluding municipal securities of this country,  
8 and Britain, and the United States -- I take it this is  
9 not a unanimous view either?

10 MR. LEMMON: Again, Mr. Holmes expressed  
11 the other view. That had another reason behind it:  
12 The Insurance Superintendent publishes a book at the  
13 end of each year with the market value of all securities  
14 held by the life companies. About 40 per cent of that  
15 book is made up of the value of municipal securities  
16 by the terrific number of municipalities and the number  
17 of individual securities issued by each municipality,  
18 and it means somebody has to go through and assign  
19 an individual value to each one of those and it results  
20 in a large volume of work in the Insurance Department  
21 and in the companies' offices themselves. We are  
22 wondering if it makes a real contribution when the  
23 market value of most of these securities is a matter  
24 of conjecture, anyway.

25 COMMISSIONER BROWN: In other words, you  
26 would rather have a yield basis fixed for each  
27 municipality?

28 MR. LEMMON: Would that be an improvement,  
29 do you think? You would still have the work to do  
30 of translating that into the price and extending it





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1 for each individual issue all the way down.

2 COMMISSIONER GIBSON: It only arises when  
3 some of these securities may be a little less than  
4 good -- then you have a problem?

5 MR. LEMMON: That is quite right.

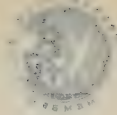
6 MR. BRYDEN: In our particular company,  
7 for pure accounting purposes we have a tendency to  
8 write down all municipal securities to par immediately  
9 after, and that does away with all the bookkeeping  
10 of amortization. On the other hand, any we buy below  
11 par we tend to just let sit, and it very well does  
12 away with a considerable volume of work. It does not  
13 do away with your valuation problem at the end of the  
14 year.

15 COMMISSIONER GIBSON: It seems to me this  
16 accentuates your valuation problem.

17 MR. BRYDEN: You have got to relate each  
18 individual price to that particular par value of the  
19 securities which you hold.

20 COMMISSIONER GIBSON: We might go on to the  
21 distribution of your assets. Table 4.f, I guess, at  
22 page 45 is the essential thing, showing the proportion  
23 of assets in various categories. This is a very  
24 interesting table to which a number of references have  
25 been made today.

26 First, on a rather minor point, the ratio  
27 of cash has climbed gradually over the years despite  
28 the fact your cash inflow must be steadily increasing.  
29 Does this mean better money management and the  
30 development of the short-term money market?



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COMMISSIONER GIBSON: We might go on to the

distribution of your assets. Table 4.7, I guess, at

page 45 is the essential thing, showing the proportion

of assets in various categories. This is a very

interesting table to which a number of references have

been made today.

First, on a rather minor point, the ratio

of cash has climbed gradually over the years despite

the fact your cash inflow must be steadily increasing.

Does this mean better money management and the

development of the short-term money market?





1 MR. McCARTHY: That is the answer, sir.

2 As the money market has developed in Canada the  
3 companies have more efficiently employed their short-term  
4 cash balances.

5 COMMISSIONER GIBSON: Is it general practice  
6 for the insurance companies now to carry a sizeable  
7 amount of money market securities off and on so they  
8 can be fully invested?

9 MR. McCARTHY: How do you mean that? Do we  
10 carry a larger total cash position than formerly?

11 COMMISSIONER GIBSON: No; you obviously  
12 carry a smaller cash position. Do you carry quite a lot  
13 of these liquid instruments so you are able to move  
14 quickly?

15 MR. McCARTHY: I would say the answer is  
16 yes; we are more inclined today as a group in the  
17 face of expectations of higher interest rates to  
18 accumulate a larger liquid position in the form of  
19 money market securities than was the case before the  
20 money market developed.

21 COMMISSIONER GIBSON: Do you do this when  
22 you see interest rates are rising, or the market is  
23 going down, and on the reverse you use the selective  
24 basis?

25 MR. McCARTHY: Quite.

26 MR. BRYDEN: I think there is also the  
27 point that has to do with our future commitments on  
28 our mortgage accounts, because there is quite a  
29 seasonal trend in the advances, and it could be at  
30 times you may go into a short-term money market position

Mr. McCarthy: That is the answer.

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for the insurance companies now to carry a sizeable amount of money market securities off and on so they can be fully invested?

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1 pending the time you expected a rather substantial  
2 outflow of mortgage account, and that is another reason  
3 for more and greater use of this short-term instrument.

4 COMMISSIONER GIBSON: Some of these may  
5 mean a maturity of 6 or 8 months, and a year; they  
6 were not necessarily all treasury bills?

7 MR. BRYDEN: That is right.

8 COMMISSIONER GIBSON: Now, these sort of  
9 major trends in this thing are reasonably clear: There  
10 has been a reduction relatively in the total holdings  
11 of bonds, share bonds in your total assets, and a  
12 quite sharp reduction in the share of Canada bonds,  
13 and a marked increase in the share of corporate bonds,  
14 though that is looking at it over a longer period;  
15 and a big increase in mortgages. Is this a pattern,  
16 or does it mean very much? I am talking really about  
17 the differences between one company and another. If  
18 you take 8 or 10 companies with their annual statements,  
19 the differences are really terrific in some of them,  
20 and you refer to them in the brief from time to time.  
21 Have there been any trends in recent years? Have some  
22 companies gone one way and others gone another way, or  
23 are these changes meaningful when you look at the whole  
24 pattern -- that is, more mortgages and less bonds.

25 MR. BRYDEN: As a completely general statement  
26 to start with, the companies during the war certainly  
27 increased their holdings of federal government bonds  
28 and at the same point you had your mortgage accounts  
29 running very significantly down. Then, I think once  
30 the postwar period developed there was this demand for



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and at the same point you had your mortgage accounts

running very significantly down. Then, I think once

the postwar period developed there was this demand for



1 housing and so on and most of the companies attempted  
2 to increase their mortgage portfolios. That accounts  
3 for, in part, the rundown on the Federals, and then  
4 you reached the point ---

5 COMMISSIONER GIBSON: Excuse me, when was  
6 that finished -- about 1950 or so?

7 MR. BRYDEN: I would say about 1957, I think,  
8 would have put the end to that, and from about 1957 on  
9 the total of our mortgage loans as a percentage of the  
10 total assets has apparently reached a plateau. That  
11 still does not explain why different companies have  
12 different approaches to this. Perhaps Mr. Lemmon  
13 could add something to this.

14 MR. LEEEMON: I don't know that I can add  
15 much to that except to say there is no unanimity of  
16 judgment as between the investment committees of the  
17 companies as to what distribution of assets they should  
18 have at any given moment. Some companies are more  
19 mortgage minded than others and want to put a higher  
20 percentage of their assets in mortgages. Other companies  
21 feel that in spite of the fact securities perhaps have  
22 a slightly lower running yield than do mortgages, there  
23 are other opportunities of trading and that sort of  
24 thing that enable you to more than make up that gap.

25 COMMISSIONER GIBSON: Would it generally  
26 be true that most of the companies have been reducing  
27 their holdings of Government of Canada bonds over a  
28 good many years?

29 MR. BRYDEN: I think that is fairly evident.

30 COMMISSIONER GIBSON: I notice in the record



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1 here this goes on really through 1958, through the  
2 conversion, then they start to increase a bit in 1959.  
3 There are some quite substantial purchases in 1959.  
4 Would you care to comment on that period?

5 MR. LEMMON: I think any comment on that  
6 would have to be very general. You will probably  
7 remember the pattern of the Dominion market better  
8 than I do but the Dominions at the end of 1959 and early  
9 1960, as you may remember, ran into a very difficult  
10 time market-wise and got down to what appeared to  
11 many companies as a pretty attractive yield basis, when  
12 the 5½ per cent convertibles were issued and the famous  
13 C.N.R. 5 per cent issue sold at very substantial dis-  
14 counts, and I think the companies were fair buyers of  
15 Dominions at that time, which was a very difficult  
16 market for Dominions. That shows up in the increase  
17 for 1959 and early 1960.

18 COMMISSIONER BROWN: They were sellers in  
19 the last quarter of 1959 -- this is page 52.

20 MR. LEMMON: You have to take that one apart  
21 and analyze it. There is always a little bit of  
22 window dressing goes on by companies on December 31.

23 COMMISSIONER BROWN: Perhaps we should  
24 ask about this cash thing too -- the end of the year is  
25 probably the high point for cash.

26 MR. LEMMON: It could be.

27 MR. BRYDEN: Yes, pretty generally.

28 COMMISSIONER GIBSON: In 1958, in the  
29 second and third quarters you were selling Canadas  
30 and heavily buying corporate bonds, and then later in

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Dominions at that time, which was a very difficult  
market for Dominions. That shows up in the increase  
for 1959 and early 1960.

COMMISSIONER BROWN: They were sellers in

the last quarter of 1959 -- this is page 25.

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ask about this cash thing too -- the end of the year is

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second and third quarters you were selling Canadian

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*Toronto, Ontario*

- 2475 -

1 the fourth quarter you were buying Canadas and selling  
2 corporates, and the first quarter of 1959 you were  
3 heavy buyers of every kind of bond. Would you care  
4 to make any comments on that movement into corporates  
5 in 1958? Were the corporate bonds a considerably  
6 better yield level and the spreads wider than usual?







1 MR. LEMMON: My memory is not that keen,  
2 to tell you the truth, but the purchases of corporate  
3 bonds tend to come when corporate bonds are available.  
4 When there is a large volume of corporate financing  
5 the companies tend to be heavy purchasers of them and  
6 when there is not it is pretty hard to pick them up in  
7 the secondary market in sufficient volume.

8 MR. HOLMES: There was quite a period  
9 when, if corporations wanted to finance, they had  
10 to pay the price, and the governments would fall to  
11 a fictitious level. We could not very well hold them  
12 under those conditions.

13 COMMISSIONER GIBSON: It is hard to draw  
14 any conclusion from this because there is nothing on  
15 maturity distribution of these bonds. Have you got  
16 any sort of picture of the maturity distribution in  
17 your Canada holdings now or would there be quite a  
18 spread.

19 MR. McCARTHY: I would think that would  
20 vary, sir, from company to company.

21 COMMISSIONER GIBSON: You do not think it  
22 would vary?

23 MR. McCARTHY: I think it would vary from  
24 company to company. I would think actual portfolios  
25 in the industry today are shorter than they were in  
26 late 1958 and early 1959 from my own experience.

27 COMMISSIONER GIBSON: In which you were  
28 holding a portion of them as a fund to be used as  
29 you saw fit as opportunity arose?  
30



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COMMISSIONER GIBSON: In which you were

holding a portion of them as a fund to be used as

you saw life as opportunity arose?





1 MR. McCARTHY: Yes.

2 COMMISSIONER GIBSON: But the emphasis  
3 of your investments in bonds is still on long maturities?

4 MR. McCARTHY: Yes sir. I should make  
5 another observation. You were commenting on the  
6 switch away from mortgages into bonds in late 1958  
7 and early 1959. The mortgage portfolio, I think  
8 you understand, really is not a long term type invest-  
9 ment; it is a pretty short term type investment and  
10 in that period when bond rates were fairly close to  
11 mortgage rates companies had a large bond account.  
12 Those rates, that is, the corporate ran for a very  
13 long period of time and I think in large measure that  
14 explains the sudden change to bonds and away from the  
15 mortgage end.

16 There are two aspects of this problem,  
17 that is, current rate and how long you will have it.  
18 This was one time that we seemed to have a historically  
19 high rate assured for a very long time, a rate very  
20 close to the mortgage rate.

21 MR. BRYDEN: Mr. Gibson, on your matter  
22 of maturity I have a portfolio here. This is a bond  
23 and debenture account. It is not just limited to  
24 federal bonds but it is a sample of the type of  
25 maturity that does exist. In this case five years  
26 or less represented 7.6 per cent of the total bond  
27 and debenture issues, five to ten years was about  
28  $12\frac{1}{2}$  per cent, ten to fifteen years about  $22\frac{1}{2}$  per cent,  
29 fifteen to twenty would be about 32 per cent, twenty  
30 to twenty-five almost 14 per cent, and over twenty-five





1 about 11 per cent.

2 COMMISSIONER GIBSON: The short maturities  
3 would be the higher proportion of the Canada bond,  
4 would they?

5 MR. BRYDEN: They would be Canada bonds  
6 and possibly maturing municipals.

7 COMMISSIONER BROWN: And corporates?

8 MR. BRYDEN: I doubt if we would hold the  
9 corporate bonds down that long. As a rule they are  
10 sold prior to that point.

11 MR. HOLMES: There are a lot of these  
12 corporates, would they be in there?

13 MR. BRYDEN: Yes, as far as we are concerned.

14 MR. RAPSEY: I took a look at the position  
15 in the second and third quarters of 1958 and our  
16 experience followed this pattern pretty well and  
17 our acquisition of bonds was kept down in one year  
18 to notepaper. In effect, what we were doing was  
19 looking after mortgages and real estate commitments  
20 and we were selling the long government of Canada  
21 bonds without going out of line at that time.

22 COMMISSIONER GIBSON: In other words, when  
23 you delved into the future interest rate structure you  
24 dealt more in mortgages and had a good yield?

25 MR. RAPSEY: We had mortgage commitments  
26 and in order to provide for them we were moving out  
27 of governments and putting the money into shorter term  
28 industrial paper.

29 COMMISSIONER GIBSON: One general point  
30 on the way that insurance companies invest. It is







1 stated from time to time that an insurance company  
2 has a quota for municipals and has one for mortgages  
3 and various types of securities. Is this general  
4 practice that quotas are set and adjusted from time to  
5 time?

6 MR. BRYDEN: Mr. Chairman, I do not know  
7 how general it is, but I would assume that most companies  
8 would make some projection as to the growth in their  
9 assets during the coming year. I should probably go  
10 so far as to say put in the light of the knowledge of  
11 the markets, what your ideal distribution should be.  
12 That produces, after your estimated repayments, a cash  
13 flow into these particular categories.

14 Now, as far as we are concerned on mortgages,  
15 for example, where we were content to put in new money  
16 to the extent of 50 per cent of our increase in assets  
17 that still produced a total new investment in mortgages  
18 in a year which is less than a mortgage organization  
19 could reasonably produce. So at that point we have  
20 to say to our branch officers, "Well, for this year here  
21 is your new quota for approvals on mortgage accounts",  
22 and I would think most of us operate in some fashion  
23 of that kind.

24 COMMISSIONER GIBSON: But this is another  
25 reason to bring this up, the quite possible rigidity  
26 in response. When companies run out of a quota or  
27 target or whatever you call it, the limitation set  
28 for each group of investments in the year, is it  
29 common to say: "Well, we have not any more to put  
30 in this area this year, you will have to wait until next



MR. BRADEN: Mr. Chairman, I do not know

how General is, but I would assume that most companies would make some projection as to the growth in their assets during the coming year. I should probably go as far as to say that in the light of the knowledge of the markets, what your ideal distribution should be. That produced, after your estimated repayments, a cash flow into these particular categories.

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CONSTITUTIONAL GIBSON: But this is another reason for doing this up, the whole possible right in response. When companies run out of a queue of what ever whatever you call it, the limitation set for each group of investments in the year, as it we have not any more to put year, you will have to wait until next





1 year"? Would you describe the possibilities there?

2 MR. BRYDEN: That would depend on what  
3 changes were taking place within the market. You  
4 do not set up projections for a year and then let them  
5 sit. If there is some change in the market levels,  
6 interest rate levels, et cetera, then you vary this  
7 ideal proportion which you set up for yourself as a  
8 target for your investments so that it might be that  
9 your mortgage branch office might say: "Well, I am  
10 sorry, nothing until next year". On the other  
11 hand, if there was some change that made additional  
12 mortgages more attractive then there would be  
13 differences in your quotas given to these branches.

14 COMMISSIONER GIBSON: You might change  
15 your program?

16 MR. BRYDEN: Yes.

17 COMMISSIONER GIBSON: That would take a bit  
18 of a push; it would have to be a fair market to induce  
19 you to do that?

20 MR. BRYDEN: I am not so sure. Sometimes  
21 it appears to me it has not taken too much.

22 COMMISSIONER BROWN: Do you vary it  
23 considerably between federal and provincial or provincial  
24 and municipal? You might say: "Sorry, nothing is  
25 left for municipals".

26 MR. BRYDEN: You could, but I am not so  
27 sure it would be refined to that extent. You would  
28 operate between, say, your mortgage account on one  
29 hand and your bond account on the other, and your  
30 stock account.



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1                   If there were significant spreads between  
2                   municipals and, say, provincials I think they are  
3                   taken care of in just the normal purchasing that you  
4                   do because I think people pretty well tend to look  
5                   at municipals and provincials to a very great extent  
6                   as being the same sort of an animal.

7                   COMMISSIONER BROWN: And on your mortgages  
8                   you give an example that you kind of ran out of mortgage  
9                   money. Would you then say: "Well, we will make more  
10                  money available and increase it one-half of one per  
11                  cent"? Would you change your rates or wait for  
12                  the market to change?

13                  MR. BRYDEN: I think we would wait for  
14                  the market because my guess is you would not have  
15                  any takers at the one-half per cent additional if  
16                  there had been other institutions still with mortgage  
17                  money to loan. I would not say it would take a  
18                  significant change in the market to do that.

19                  COMMISSIONER BROWN: Presumably we are  
20                  talking about North American?

21                  MR. BRYDEN: Yes.

22                  COMMISSIONER BROWN: I wonder if any of the  
23                  other companies have different patterns.

24                  MR. BRYDEN: I would be happy to have what  
25                  I have said supplemented.

26                  MR. HOLMES: We do not do much spending.  
27                  We have to give them some sort of quota for mortgages  
28                  but we are inclined to stiffen our terms rather than  
29                  run out of mortgages if we are getting more than we  
30                  think we want, but if we are getting them very freely





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1 we are inclined to stiffen our terms.

2 COMMISSIONER BROWN: Would you put your  
3 interest rates up before North American found out?

4 MR. HOLMES: Well, we would get a certain  
5 amount of business even if we did.

6 COMMISSIONER GIBSON: Do you by some method  
7 ration it out rather than say: "We are sorry, we are  
8 not going to do any more"?

9 MR. HOLMES: To some extent. In this year  
10 you will find they are lending next year's money.

11 COMMISSIONER BROWN: At this year's rates?

12 MR. BRYDEN: At next year's rates.

13 MR. RIEDER: I think our industry is very  
14 much the same as that of Mr. Bryden's with this addition,  
15 that we always caution our branches not to run out  
16 during the year.

17 MR. BRYDEN: We do that too.

18 COMMISSIONER GIBSON: There comes a time  
19 when you see good opportunities for bonds, and the  
20 mortgage demand is strong and you are running over  
21 your quotas right across the board -- what do you do  
22 then?

23 MR. BRYDEN: We can only invest the money  
24 we get.

25 MR. POYNTZ: Then you do have to ration.

26 COMMISSIONER GIBSON: Do you do this by  
27 saying "Since the rate has been down we will only  
28 take so much"?

29 MR. RIEDER: You will not be alone because  
30 the industry will feel the upward movement.



... ..  
... ..  
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COMMISSIONER GIBSON: Do you do this by

saying "because the rate has been down we will only

MR. BRYDEN: You will not be alone because





1 COMMISSIONER GIBSON: But you are an  
2 important factor in this industry you are talking about  
3 and I would think you would exercise leadership in the  
4 kind of policies you follow.

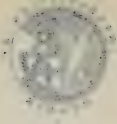
5 MR. RIEDER: That would indicate a demand  
6 for increased mortgage money and therefore the rate  
7 would go up.

8 MR. HOLMES: It really does not take them  
9 very long. As a matter of fact, they went up several  
10 times to  $7\frac{1}{2}$  per cent and we stayed at  $7\frac{1}{2}$  with other  
11 companies below us for a year and got a fair amount  
12 of mortgages. If we were not getting too much, we  
13 came down.

14 MR. POYNTZ: We had very much as Mr. Bryden  
15 described. We set up a program at the beginning of the  
16 year and a target, so much to mortgages, so much to  
17 bonds, and it could vary two or three times during the  
18 year. Each year altered depending on the relative  
19 traction of the various types of securities available.

20 COMMISSIONER GIBSON: Mr. McCarthy, would  
21 you like to say anything about this?

22 MR. McCARTHY: In our company, sir, we  
23 sit down once a year and make a determination of what  
24 we want to do in the mortgage field. It is as much  
25 an administrative effort as anything else. You have  
26 a mortgage organization and they have to know what they  
27 have to spend in the time ahead. This determination  
28 is made in the light of the best expectations we can  
29 summon up about the nature of the year ahead and if  
30



COMMISSIONER GIBSON: Mr. McCarthy,

important factor in the mortgage market, and I would think you would be interested in the kind of policies you follow.

MR. RINDER: That would indicate a demand for increased mortgage money and therefore the rate would go up.

MR. HOLMES: It really does not take them very long. As a matter of fact, they went up several times to  $\frac{1}{2}$  per cent and we stayed at  $\frac{1}{2}$  with other companies below us for a year and got a fair amount of mortgages. If we were not getting too much, we come down.

MR. POWERS: We had very much as Mr. Bryden described. We set up a program at the beginning of the year and a target, so much to mortgages, so much to bonds, and it could vary two or three times during the year. Each year altered depending on the relative traction of the various types of securities available.

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1 the conditions change considerably, or perhaps not  
2 terribly considerably but materially from what we had  
3 envisioned, we are quite flexible in either adding to  
4 or subtracting from a mortgage program already outlined  
5 in the first instance.

6 COMMISSIONER GIBSON: And in raising your  
7 rates, if the general demand is increasing?

8 MR. McCARTHY: Well, the investment area  
9 is really divided into the conventional and N.H.A. and  
10 the first area to bear the brunt of the rising rate  
11 situation is obviously the N.H.A. if your conventional  
12 rates are beginning to go, and I think most of us  
13 are sensitive in this area and we will attempt to get  
14 a better rate. If it falls away from the N.H.A. rate  
15 to a significant extent there is a tendency then to  
16 consider an allocation between the two areas to the  
17 detriment of the administrative rate.

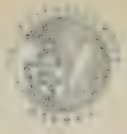
18 COMMISSIONER LEMAN: Over the past years  
19 what has been the trend on conventional mortgages?  
20 The demand has been high most of the time.

21 MR. McCARTHY: Most of the time.

22 COMMISSIONER GIBSON: What happens in a  
23 corporate bond market when there are a lot of issues  
24 becoming available and money is getting tight? Do you  
25 take as much as you can and then stop or do you raise  
26 the rate at the same time?

27 MR. McCARTHY: If they are as attractive  
28 as that we recognize one factor of life in the corporate  
29 bond market mentioned here before that you buy them  
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bond market mentioned here before that you buy them

when available as new issues, and that is really the only



1 condition in which you can make significant progress  
2 on your corporate bond portfolio and if they are that  
3 attractive relative to other criteria obviously once  
4 you have exhausted available cash you will make  
5 commitments against trading possibilities and at the  
6 final analysis if they are all that attractive you  
7 will attempt to arrange your commitments for previous  
8 downgrow at the rates that prevail at the moment and  
9 you will increase your forwards if the nature of the  
10 demand permits that.

11 COMMISSIONER BROWN: Delayed delivery.

12 MR. MCCARTHY: Delayed delivery.

13 COMMISSIONER GIBSON: Do you think in  
14 terms of rationing these bonds between applicants or  
15 raise your rates and prices to some of the applicants?

16 MR. MCCARTHY: Well, in my own experience  
17 it has been the case under extreme demand for bonds  
18 that there will be some rationing in terms of the  
19 amount of each individual one that we can buy, if we  
20 can clearly see that there was anything more behind them,  
21 and that this condition was likely to prevail. This  
22 raises the problem that you cannot detail that very  
23 well because in Canada you have no clear forward view  
24 on corporate bonds. There is no such thing as a  
25 calendar of firm borrowings and borrowers seem to be  
26 in some instances almost secretive in going to the market,  
27 moreso under the conditions you describe. This produces  
28 surprises. You would tend to, under those conditions,  
29 ration or limit your participation on each one that came  
30 along, and as you can see this is not a precise science,



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1 you have not got enough information.

2 COMMISSIONER GIBSON: You would rather spread  
3 the fund out and raise the price or have a higher interest  
4 rate?

5 MR. McCARTHY: It is in the nature of  
6 the publicly offered bond issues in Canada that the  
7 lender, the insurance company, that once the issue  
8 has been made, the only way you can influence the rate  
9 on the next one is not to take this one. You cannot  
10 change the rate on this one.

11 COMMISSIONER GIBSON: I am thinking about  
12 the ones that are coming out.

13 MR. McCARTHY: If the issue receives a  
14 limited response the next one has to come at a higher  
15 rate and that is how you get your point across as a  
16 lender.

17 THE CHAIRMAN: We will adjourn for a few  
18 moment.

19 (At this point a short recess was taken.)  
20  
21  
22  
23  
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1 --- After recess.

2 THE CHAIRMAN: We shall now resume.

3 COMMISSIONER BROWN: This morning we touched  
4 briefly on this question of foreign assets against  
5 foreign liabilities. I should like to refer to paragraph  
6 5.42. The last sentence reads:

7 "(Non-resident companies doing business  
8 here are encouraged by the authorities to  
9 cover their Canadian liabilities with  
10 Canadian assets.)"

11 What do you mean by "encouraged"?

12 MR. BRYDEN: Mr. Westwater might answer  
13 that.

14 MR. WESTWATER: We were encouraged by a  
15 letter from the Superintendent of Insurance a year  
16 or two ago. There is no statutory necessity to cover  
17 everything.

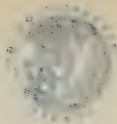
18 THE CHAIRMAN: There is no necessity for  
19 a statute, I take it?

20 MR. WESTWATER: Mr. McGregor, or else his  
21 predecessor, addressed a letter to all the general  
22 companies requesting that to as great an extent as  
23 possible we should invest our assets in domestic  
24 securities. That is the extent of the encouragement.

25 COMMISSIONER BROWN: What is the situation  
26 with respect to the foreign liabilities of Canadian  
27 companies? Are they required by the jurisdictions in  
28 which they do operate to protect themselves by  
29 investment in those currencies?

30 MR. BRYDEN: I do not think there is any





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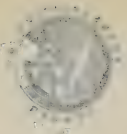
1 real requirement in any place that we carry on  
2 business to do so. As a matter of practice we would  
3 have well over 95 per cent of our United States assets  
4 in United States investments. Within the sterling  
5 area -- we are only down in the Caribbean area --  
6 we attempt to match the currency of liabilities with  
7 local currency assets, but once again there is no  
8 requirement as such, although there is getting to be  
9 a requirement in British Guiana.

10 MR. LEMMON: The state of New York has  
11 a requirement that a company obtaining a license there  
12 may not have more than 10 per cent of its assets invested  
13 in Canadian securities and one per cent in other  
14 foreign securities. That is not a currency provision,  
15 that is a debtor provision. That is in relation to  
16 Canadian debtor securities and foreign debtor securities.

17 The situation in sterling as far as the  
18 United Kingdom is concerned is that it is not a matter  
19 of law, but since 1939 it has been a matter of the  
20 Foreign Exchange Control Board. If you wanted to  
21 withdraw assets from a sterling area you had to get  
22 permission from the Foreign Exchange Control Board,  
23 which was not ordinarily granted unless you had an  
24 extent of sterling assets over sterling currency  
25 liabilities.

26 COMMISSIONER BROWN: In other words you  
27 could move your surplus?

28 MR. LEMMON: That is generally it. That  
29 is not 100 per cent true. There are other circumstances  
30 under which it would be permitted, but that is generally



Bank of Canada  
Ottawa, Ontario

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1 the way it operates.

2 COMMISSIONER BROWN: I should like to turn  
3 to paragraph 5.44. Again this was touched on this  
4 morning and has reference to the movement of funds  
5 that takes place because of the differential in  
6 interest; when spread narrow it moves one way and  
7 when it is wider it moves the other way. How much  
8 of a change activates the companies?

9 MR. BRYDEN: Possibly Mr. Rapsey might  
10 be our closest trader in that area. What would be  
11 your reaction?

12 MR. RAPSEY: I think it is a combination  
13 here really of the interest rate spread and the  
14 question of exchange rates that dictates this thing.  
15 I would assume that it is a question of the individual  
16 companies' opinion as to just the right spread at  
17 which to do this sort of thing. I think perhaps we  
18 all have the same historical data on which to work,  
19 as to what seems to be more or less the normal spread,  
20 but I am also sure that we come to all kinds of different  
21 conclusions as to how much of a spread we would require  
22 to do this sort of thing. I think there have been  
23 instances outside the question of moving between here  
24 and the States where we have perhaps done a little bit  
25 of moving between here and London where interest rates  
26 have widened considerably and we have been able to get  
27 a much larger rate in London. That has been very, very  
28 small. I would not like to say that there is any set  
29 figure for doing this sort of thing.

30 COMMISSIONER BROWN: There is no rule of



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COMMISSIONER BROWN: There is no rule of



1 thumb?

2 MR. RAPSEY: No rule of thumb.

3 COMMISSIONER BROWN: How about the other  
4 companies?

5 MR. POYNTZ: I do not think we would have  
6 a rule of thumb, Mr. Brown. We are concerned only  
7 with sterling, ~~the~~ United States dollars and  
8 Canadian dollars. We have from time to time brought  
9 back sterling to the extent of our surplus earnings  
10 there. We have not brought back United States dollars  
11 recently. We maintain a very low position in United  
12 States dollars. We are now beginning to bring that  
13 back to Canada, taking advantage of the premium on  
14 the exchange and the higher rates of interest available  
15 here. There is not a pattern to this activity.

16 COMMISSIONER BROWN: It is just that you  
17 all are responsive to varying degrees as the market  
18 changes?

19 MR. POYNTZ: Yes.

20 COMMISSIONER MACKINTOSH: I take it that  
21 it is not a matter of how narrow the spread is, but  
22 to what extent and at what time you expect it to  
23 widen again?

24 MR. BRYDEN: Yes, it is the expectation.

25 COMMISSIONER MACKINTOSH: It is not something  
26 on which any two people would agree?

27 COMMISSIONER LEMAN: It is probably something  
28 they do not want to tell each other, either.

29 MR. BRYDEN: I wish there was a rule of thumb.

30 COMMISSIONER BROWN: I wonder if we could



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COMMISSIONER BROWN: I wonder if we could



1 discuss briefly, while talking in the connotation  
2 of this distribution of assets, about the investment  
3 in municipal securities. This varies from company  
4 to company depending on how far they have developed  
5 the municipal section of their investment department,  
6 but life companies as a whole are probably the largest  
7 pools of knowledgeable savings that are directed toward  
8 the non-term dollar liabilities and as such probably  
9 constitute the logical place for assisting municipal  
10 financing. In one section of your submission you refer  
11 to moving to provincial, municipal and corporate  
12 securities to increase the yield, and yet in paragraph  
13 7.11 you talk about the advantages of provinces  
14 extending guarantees to municipalities in order to give  
15 them a wider market. This tends to reduce the yield  
16 on municipal securities.

17 MR. McCARTHY: These two points are made  
18 in the brief. I think what we have to draw your  
19 attention to is this. The industry has been an will  
20 likely continue to be an important buyer of municipal  
21 securities, but they will only buy municipal securities  
22 that merit their purchase. There are a group of  
23 municipalities in Canada; they may vary from time to  
24 time in numbers and in total dollar needs on the  
25 capital market, that for one reason or another do not  
26 measure up to the standards that the industry requires.  
27 We say that this group perhaps could be handled better  
28 by the provincial pooling arrangement. Do you see the  
29 point?

30 COMMISSIONER BROWN: Yes, but by "pooling."



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1 do you mean just a municipal pooling and issuing  
2 something as a pool, or do you mean some sort of  
3 provincial guarantee?

4 MR. McCARTHY: Provincial assistance;  
5 provincial borrowing on the capital market and advancing  
6 the money to the municipality on a basis like the  
7 exchanges of securities, perhaps, until such time as  
8 the municipality can go to the market on its own merits.

9 COMMISSIONER BROWN: This means the existence  
10 of a lower yield ?

11 MR. McCARTHY: It would mean that the  
12 insurance company would look at the provincial guaranteed  
13 credit and would make its mind up, as it does all the  
14 time, as to whether or not at that particular time  
15 that particular guarantee was an acceptable investment.

16 COMMISSIONER BROWN: You are putting it  
17 on the basis of a provincial guarantee rather than  
18 on the basis of the municipality itself?

19 MR. BRYDEN: Yes, but under these conditions  
20 this particular municipality probably would not be  
21 buying at all. So, to that extent the addition of  
22 this additional credit gives them access to the capital  
23 market which otherwise might have been denied because  
24 of their own particular credit position.

25 COMMISSIONER BROWN: So the poorer  
26 municipality gets money on a cheaper basis? The  
27 municipality that has a poor credit gets money on a  
28 cheaper basis than the other municipality that borrows  
29 directly?

30 MR. McCARTHY: It all depends. A provincial

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1 jurisdiction could lend money to a municipality at  
2 a higher rate if it chose to do it. The province  
3 borrowing the money could advance it to the municipality  
4 directly rather than the municipality coming to the  
5 market with a guarantee of the province. There is more  
6 than one way of doing it.

7 COMMISSIONER BROWN: You do not think the  
8 insurance companies with their large pools of funds  
9 could satisfactorily spread the risk to look after some  
10 of these lesser known municipalities?

11 MR. BRYDEN: It is not a question, Mr.  
12 Brown, of necessarily being lesser known. I think  
13 basically it is a question of their credit worthiness;  
14 whether they have the economic background, assets and  
15 so on to service the debt. In other words, these are  
16 municipalities which may lack sufficient credit.

17 COMMISSIONER BROWN: Well, that is the point  
18 I was getting at. It is not a question of knowledge?

19 MR. McCARTHY: It is a question of credit  
20 worthiness.

21 COMMISSIONER BROWN: It is a question of  
22 the credit worthiness of the municipality itself?

23 MR. McCARTHY: Yes.

24 COMMISSIONER BROWN: And you are prepared  
25 to buy municipal bonds of an unknown municipality  
26 providing it can be shown that the credit is justified?

27 MR. BRYDEN: Yes.

28 MR. LEMMON: Yes.

29 COMMISSIONER GIBSON: Is the interest of  
30 insurance companies in regard to municipal bonds





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1 increasing with the development of larger municipal  
2 areas like the bigger school districts in the West  
3 and so on, and the greater interest on the part of  
4 provincial governments in providing standards for  
5 municipal grants? Is this increasing the demand for  
6 municipal bonds on the part of insurance companies?  
7 We have heard a lot about this across the country.

8 MR. BRYDEN: On page 66 in Table 4.0 we  
9 have tried to set out here the participation of the  
10 large insurance industry in municipal bond issues in  
11 Canada. It covers the figures from 1952 through 1961,  
12 and it shows the net purchases by the life industry  
13 of the net new issues of municipal direct and guaranty  
14 bonds. You will notice that the per cent of participation  
15 varies from year to year, but in 1961, for example,  
16 life insurance companies bought 18 per cent of all the  
17 new municipal issues offered.

18 COMMISSIONER GIBSON: It is a higher variable  
19 percentage, is it not?

20 MR. BRYDEN: Yes.

21 COMMISSIONER GIBSON: I notice your portfolio,  
22 as a proportion of your assets, has stayed fairly stable  
23 in the postwar term.

24 MR. BRYDEN: Well, yes, I think it has  
25 stayed quite stable, but one point I think that must be  
26 borne in mind is that the life insurance industry can  
27 only invest really its net increase in assets in any  
28 year. To the extent you go into a certain area you  
29 must reduce some other area. It is a matter of shuffling  
30 within a certain total. You try to cover as wide a



1

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6 municipal bonds on the part of insurance companies?  
7 We have heard a lot about this across the country.

8 MR. BRIDEN: On page 66 in Table A.0 we  
9 have tried to set out here the participation of the  
10 large insurance industry in municipal bond issues in  
11 Canada. It covers the figures from 1952 through 1961,  
12 and it shows the net purchases by the life industry  
13 of the net new issues of municipal direct and guaranty  
14 bonds. You will notice that the per cent of participation  
15 varies from year to year, but in 1961, for example,  
16 life insurance companies bought 13 per cent of all the  
17 new municipal issues offered.

18 COMMISSIONER GIBSON: It is a higher variable  
19 percentage, is it not?

20 MR. BRIDEN: Yes.

21 COMMISSIONER GIBSON: I notice your portfolio  
22 as a proportion of your assets, has stayed fairly stable  
23 in the postwar term.

24 MR. BRIDEN: Well, yes, I think it has  
25 stayed quite stable, but one point I think that must be  
26 borne in mind is that the life insurance industry can  
27 only invest really its net increase in assets in any  
28 year. To the extent you go into a certain area you  
29 must reduce some other area. It is a matter of shifting  
30 within a certain total. You try to cover as wide a





1 spectrum of the reasonable needs as you can but there  
2 is a limit beyond which the money just is not available.

3 COMMISSIONER GIBSON: It is not one of the  
4 areas growing rapidly because of this increase in housing  
5 and so on? Are you participating to an increased degree  
6 in housing?

7 MR. BRYDEN: Yes, and we have felt that  
8 rather than go any further in housing we had some  
9 sort of responsibility to help provide the amenities  
10 that make housing feasible. That has been one of the  
11 reasons for the increasing interest in municipal bonds.

12 COMMISSIONER BROWN: If I remember rightly  
13 some companies have a rule of thumb that they will not  
14 invest in any one municipality more than X dollars per  
15 capita, relating to the population of that municipality.  
16 Is this general?

17 MR. BRYDEN: I would not say it was general.  
18 We try to work out some kind of a yardstick as to the  
19 amount that we would like to see in any one municipality.  
20 The easiest method seems to be to relate it to the  
21 number of people in the municipality so that we do have  
22 limits of that character. The limits are pretty much  
23 \$10 per capita in the municipality of any substantial  
24 size, so with 50,000 people it would give you \$500,000  
25 being the top limit in that municipality. Now, the  
26 chances of building it that high in a number of those  
27 cases is pretty thin. Those limits are beyond what  
28 you would probably have by distributing your municipal  
29 portfolio over the number of municipalities which you  
30 own.



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1                    COMMISSIONER BROWN: The municipal issues  
2 now in all provinces are largely issued in serial form  
3 except for the large metropolitan areas. This historically  
4 I think came about because of the problems that arose  
5 through sinking fund maladministration in the 1930's.  
6 Have life companies had any second thoughts about the  
7 advantages and disadvantages of serial issues as against  
8 sinking fund issues of municipalities?

9                    MR. LEMMON: No, I would think on the  
10 average we still think the serial method is the best  
11 method by which to finance. We do realize that that  
12 proposes some limitations in the marketability of those  
13 bonds, because to individuals small serial maturities  
14 are not particularly attractive. We still think that  
15 is best, and we still do not like the idea of small  
16 municipalities getting into the problems of sinking  
17 fund administration.

18                   There is another alternative, of course  
19 which is a sort of pooled sinking fund arrangement,  
20 but that seems to create more problems than it solves.  
21 I think most of the companies would still lean toward  
22 serial maturities for municipalities.

23                   MR. McCARTHY: Our company has been investing  
24 in municipal bonds for a very long time. We would agree  
25 with that statement while recognizing that it runs  
26 perhaps counter to one or two other objectives. The  
27 objective is to secure as long-term as possible, for  
28 instance, on your fixed income securities, but in the  
29 interest of public finance administration of the small  
30 and medium type municipality we would tend to feel on





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and medium type municipality we would tend to feel on



1 the basis of our own experience and judgment that  
2 the retention of the serial form is the best.

3 COMMISSIONER BROWN: Everyone is unanimous  
4 in that regard?

5 MR. BRYDEN: I would not disagree.

6 COMMISSIONER BROWN: How about a rating  
7 for municipal securities similar to the system in  
8 the United States?

9 MR. McCARTHY: I think most of the companies  
10 that have been in the municipal business for a long  
11 period of time have individually developed some form  
12 of a rating system; some more comprehensive than others.  
13 As far as a publicly or privately operated rating system,  
14 I do not think we would regard it as being very useful.  
15 I think we would use our own methods because they  
16 have been proven and proved satisfactory.

17 MR. BRYDEN: You may remember, Mr. Brown,  
18 that was one of the things that the Citizen's Research  
19 Institution did in the past. That institution rated  
20 municipal bonds, but it finally just petered out. There  
21 was not enough call for it and it is defunct as of now.

22 COMMISSIONER GIBSON: I would like to ask  
23 a few questions about mortgage preferences in insurance  
24 companies. Mr. Lemmon said earlier that 66-2/3 limit  
25 on conventional mortgages was one of the few restrictive  
26 limits in his view



The main purpose of the investigation was to determine the extent to which the various States have adopted the system of rating municipal securities.

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1 COMMISSIONER GIBSON: Is that a fairly  
2 widely used element? In other words, that loans may  
3 be made at a higher percent?

4 MR. McCARTHY: I think that generally speaking  
5 the restriction does prevent some lending. In my  
6 own experience it would not be too significant in the  
7 total scheme of things. I think if the limit were  
8 higher that most of the companies would tend to  
9 propose that the majority of trade loans observe  
10 something around the two-thirds ratio.

11 COMMISSIONER GIBSON: There would be  
12 situations where it would be convenient to get rid  
13 of this particular thing?

14 MR. McCARTHY: That is right.

15 MR. POYNTZ: It probably would not mean  
16 that more money would go into the mortgage market,  
17 though.

18 COMMISSIONER BROWN: It probably would  
19 mean that you would loan on fewer houses?

20 COMMISSIONER GIBSON: You could make more  
21 large corporate mortgages?

22 MR. LEMMON: Yes.

23 COMMISSIONER GIBSON: That is an interesting  
24 observation. Of the loans that are made on existing  
25 residential properties, what parts are associated with  
26 transfers of such properties and what part is for other  
27 purposes? In the first place, do you make many  
28 loans against the existing residential properties, not  
29 new homes?

30 MR. BRYDEN: It is a fairly significant part



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1 of most companies' business. Usually I imagine it  
2 takes place at the point at which the property is  
3 being sold to another purchaser, so it helps finance  
4 the sale.

5 COMMISSIONER GIBSON: In some of these  
6 you make mortgage loans to people who simply want  
7 money for a use, it is not to finance a sale at all?

8 MR. BRYDEN: Yes, I think that you would  
9 do that from time to time. There it bears on how  
10 you assess the value of the house and his credit, and  
11 presumably at that point you would probably ask him  
12 what he wants the money for and to see if it is a  
13 perfectly good risk. The chances are that you would  
14 do it.

15 COMMISSIONER GIBSON: Whether or not this  
16 is a good asset; that is the main point is it not?

17 MR. BRYDEN: That is right.

18 COMMISSIONER GIBSON: The loan is in proper  
19 relation to its value, so you do not care too much  
20 what is done with the money?

21 MR. LEMMON: No.

22 MR. RIEDER: I would say it is not a very  
23 significant part of our operation for the financing  
24 of old houses; perhaps 80 per cent is N.H.A. and that  
25 is on new housing and it would be a fraction of the  
26 rest.

27 MR. BRYDEN: If the Commission is interested,  
28 Dominion Mortgage and Investment have figures of the  
29 breakdown on loans made by the life company members  
30 by new houses, existing houses, and so on; I do not happen





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1 to have that with me, but we would be glad ---

2 COMMISSIONER GIBSON: We would be very  
3 interested in that.

4 MR. BRYDEN: We will send it along to the  
5 Secretary. Would you want this for a one-year period  
6 or what?

7 COMMISSIONER GIBSON: As it appears in  
8 the latest period.

9 MR. BRYDEN: Would you want just the latest  
10 period or a period of years back?

11 COMMISSIONER GIBSON: It would be interesting  
12 to see if there has been any change.

13 MR. BRYDEN: We will give it back as many  
14 years as we have it available.

15 COMMISSIONER GIBSON: Do you think there  
16 is much demand in this area for existing houses; is  
17 there an area where finance is needed here? We have  
18 had suggested to us by a number of people that there  
19 is not enough money available on existing properties.

20 MR. McCARTHY: I think one point that has  
21 to be made is that to the extent that the insurance  
22 industry were to devote significant funds to the  
23 financing of old houses that it would be just that  
24 much more money not available for the construction of  
25 new houses, and that aspect has to be related to  
26 public policies, and so on. You do not add much to  
27 employment and income by refinancing old houses.

28 COMMISSIONER GIBSON: And it is usually  
29 an individual operation, whereas the financing of  
30 new houses is usually done with a builder, so that you



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1 are really moving from wholesale to retail in a sense?

2 MR. POYNTZ: I think the companies  
3 are interested in lending on existing houses to facilitate  
4 a sale, but the pressure may be felt by the purchaser  
5 who may not get as high a ratio of loan to value as  
6 he might wish. I think there is money available,  
7 but not on the same terms, possibly, as for a new house.

8 COMMISSIONER BROWN: There would be a  
9 higher proportion -- would this in fact increase the  
10 price of the old house?

11 MR. POYNTZ: I think it would.

12 COMMISSIONER BROWN: So that would not  
13 be any advantage to you.

14 MR. POYNTZ: I doubt it.

15 COMMISSIONER BROWN: The advantage would  
16 be to the seller.

17 MR. POYNTZ: Yes.

18 COMMISSIONER MACKINTOSH: The buyer would  
19 get a house and the seller would sell his house and  
20 they both get some advantage out of it, but I would  
21 think the greatest concern in this is in the mobility  
22 and the difficulty of moving people because they have  
23 houses which they have to sell and if they have to  
24 buy an existing house they only get a two-thirds  
25 mortgage on it and are scrambling around for all sorts  
26 of odds and ends of finance to try and get the rest of  
27 it, and they are often quite young people in communities  
28 where you cannot resell the house. It is quite a  
29 problem in the mobility of high class estates  
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MR. POWT: Yes.

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1 Now, I want to ask the question if  $66\frac{2}{3}$   
2 is a little low, how high is comfortable?

3 MR. BRYDEN: Well, I do not think, Dr.  
4 Mackintosh, that the industry has a view on that subject.  
5 I think that for pure practical lending purposes that  
6 there are times when you could quite easily feel that  
7 the security was such that you could go to 75 per cent.  
8 There might be other times when the security is such  
9 that you would not want to loan beyond 50 per cent.  
10 As far as the industry is concerned, we were in thorough  
11 agreement at the point at which  $66\frac{2}{3}$  per cent was  
12 stated. I think some of us may feel that if we made  
13 a mortgage loan larger than that that we might put  
14 it in the basket, but that was denied to us under  
15 current legislation.

16 COMMISSIONER MACKINTOSH: You do say at  
17 one place that you are going to suggest the 80 per  
18 cent for the home owner.

19 MR. LEMMON: That was under the National  
20 Housing Act.

21 COMMISSIONER MACKINTOSH: No, I think  
22 that was on existing houses and limited to the purchase  
23 by a home owner.

24 MR. LEMMON: That is in the case of the  
25 National Housing Act with regard to existing houses.  
26 It was not suggested as a conventional loan.

27 MR. BRYDEN: That was our point, if it was  
28 deemed advisable to extend the N.H.A. mortgage to  
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2 really recognize the existing age of the house, its  
3 location, its remaining economic life and that it should,  
4 I think, be limited to the bona fide purchaser of a  
5 certain house who intends to reside in it. One of  
6 the things I can see is the -- if this were done  
7 without that type of a safeguard, first, you would  
8 monetize an awful lot of existing savings which  
9 are now tied up, in fact, in the house. Everybody  
10 could play musical chairs and in no time flat you  
11 would have a mortgage situation on your existing house  
12 which in theory might run to 80 per cent.

13 What happens though to all this money that  
14 is drawn out by the seller? Is it maintained in  
15 savings form or spent currently? I think this is  
16 one of the problems where it exists in making it too  
17 easy to get too large a loan on existing houses.

18 COMMISSIONER BROWN: What would the reaction  
19 be to an adjustment to this basic clause to take care  
20 of a surplus of 66-2/3 per cent on any mortgage?

21 MR. LEMMON: Some companies were in favour  
22 of that at the time of the revision of the Act. I do  
23 not know whether that was all the industry, but certainly  
24 companies were in favour of it.

25 MR. BRYDEN: I do not actually think it  
26 was unanimous.

27 COMMISSIONER BROWN: What would be the argu-  
28 ment against it if the company wished to use the basket  
29 clause for this purpose?

30 MR. TUCK: I do not think any company did speak



say, 80 per cent, but on a lending value that would really recognize the existing age of the house, its location, its remaining economic life and that it should I think, be limited to the bona fide purchaser of a certain house who intends to reside in it. One of the things I can see is the -- if this were done without that type of a safeguard, first, you would monetize an awful lot of existing savings which are now tied up, in fact, in the house. Everybody could play musical chairs and in no time flat you would have a mortgage situation on your existing house which in theory might run to 80 per cent.

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1 against it.

2 MR. BRYDEN: I guess it was a unanimous  
3 view.

4 COMMISSIONER GIBSON: Do you really think  
5 a great many people would start monetizing their equities  
6 in their houses and go rushing off spending it? It  
7 is a great advantage having an equity in a house from  
8 a tax point of view.

9 MR. BRYDEN: But on the other hand, you  
10 continually get the situation in certain locations  
11 where there are individuals who know the house's age  
12 and to the extent that you allow too high a mortgage,  
13 but you do free a lot of cash which at the moment  
14 is locked up pretty well.

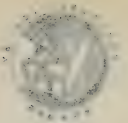
15 COMMISSIONER GIBSON: But it is deliberately  
16 locked up as a matter of conscious choice; that person  
17 has built up an equity in that.

18 THE CHAIRMAN: You say that there is a  
19 tax advantage to this?

20 MR. BRYDEN: Yes.

21 THE CHAIRMAN: I do not see what difference  
22 it makes; supposing he does decide to spend the money,  
23 suppose he is a retired person and decides that he  
24 will just spend that money and have none of it left  
25 by the time he dies, what difference does it make?  
26 Why should he not be able to do that?

27 MR. HOLMES: You have to take over the house  
28 and sell it. There is not a fixed price for it and there  
29 has been a varying price for the last couple of years.  
30 We have moved three men out of Saguenay and had to take



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1 over their houses at lower than they paid for them, and  
2 we still own those three houses. If you were thinking  
3 of 80 per cent loans, they are risky loans to make.

4 THE CHAIRMAN: I think that would be so,  
5 as you pointed out here you would have to be very careful  
6 as to the evaluation, but why shouldn't houses be  
7 more liquid than they are? That is, older houses.  
8 There are many people living in an older house and  
9 they have to move for some reason to some other part  
10 of the city or some other city and they have great  
11 difficulty in selling the house, financing the sale,  
12 and if mortgages were available for that sort of thing  
13 I would think it would be well worthwhile. It may  
14 be entirely different from the point of view of a  
15 life insurance company; it may not be considered a  
16 convenient type of interest.

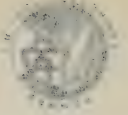
17 MR. HOLMES: When you are thinking of some-  
18 body else loaning them the money -- you have to think  
19 of a person loaning the money, and they have to get  
20 something for it if you are going to get anything  
21 like 80 per cent.

22 THE CHAIRMAN: It is on a fairly low evaluation --

23 MR. HOLMES: The N.H.A. has gotten people's  
24 minds fixed on a  $6\frac{1}{2}$  per cent rate and an 80 per cent  
25 loan. That would not be the case if you were loaning  
26 on old houses at these values.

27 THE CHAIRMAN: Well, in terms of loaning  
28 at these particular values, it is a question of having  
29 some sort of a mortgage market for existing houses,  
30 and it may be an entirely different -- you may decide





over their houses at lower than they paid for them, and we still own those three houses. If you were thinking of 80 per cent loans, they are risky loans to make.

THE CHAIRMAN: I think that would be so,

as you pointed out here you would have to be very careful

as to the evaluation, but why shouldn't houses be

more liquid than they are? That is, older houses.

There are many people living in an older house and

they have to move for some reason to some other part

of the city or some other city and they have great

difficulty in selling the house, financing the sale,

and if mortgages were available for that sort of thing

I would think it would be well worthwhile. It may

be entirely different from the point of view of a

life insurance company; it may not be considered a

conservative investment.

MR. HOLMES: When you are thinking of some-

body else loaning them the money -- you have to think

of a person loaning the money, and they have to get

something for it if you are going to get anything

like 80 per cent.

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on old houses at these values.

THE CHAIRMAN: Well, in terms of loaning

at these particular values, it is a question of having

some sort of a mortgage market for existing houses,

and it is not as simple as it seems.





1 to loan up to the full amount but you might not be  
2 entitled to it.

3 COMMISSIONER MACKINTOSH: As to monetizing  
4 the proceeds of a higher mortgage on an existing house,  
5 what happens to the fellow who has a house that he  
6 has built at the 60 per cent equity, would you monetize  
7 that part he had built up in equity?

8 MR. BRYDEN: Let us assume for the sake  
9 of the discussion that that fellow was the owner  
10 and he may have a mortgage on his property that he  
11 has brought down over the years to, say, 20 per cent.  
12 As it stands at the moment, if he is the seller,  
13 presumably he can, or his purchaser can, arrange a  
14 mortgage on 66-2/3. Now, it is possible that he may  
15 not have the additional down payment himself and then  
16 you get into the position where either the seller  
17 has to give back a second mortgage -- in other words,  
18 take a time payment on the equity -- or else he has  
19 to go in search of funds. As far as the seller is  
20 concerned, if we move into this other situation it  
21 struck me -- and maybe I am on a sticky wicket -- it  
22 struck me that there is a very large equity position  
23 existing in older houses, a large part of that, you  
24 might say, is on earned increment which has come  
25 from the exceptional spiral in houses to the  
26 extent that the savings he gets out of the sale are  
27 on balance kept in capital form, and then I think  
28 that is all right, but I could see situations where  
29 it would seem to me that a lot of people might very  
30 well -- and this is not the old people the Chairman

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the proceeds of a higher mortgage on an existing house, what happens to the fellow who has a house that he has built at the 60 per cent equity, would you monetize that part he had built up in equity?

MR. BRYDIN: Let us assume for the sake

of the discussion that that fellow was the owner and he may have a mortgage on his property that he has brought down over the years to, say, 50 per cent. As it stands at the moment, if he is the seller,

presumably he can, or his purchaser can, arrange a mortgage on 66-2/3. Now, it is possible that he may not have the additional down payment himself and then you get into the position where either the seller

has to give back a second mortgage -- in other words, take a time payment on the equity -- or else he has to go in search of funds. As far as the seller is

concerned, if we move into this other situation it struck me -- and maybe I am on a sticky wicket -- it struck me that there is a very large equity position existing in older houses, a large part of that, you might say, is on earned increment which has come

from the exceptional spiral in houses to the extent that the savings he gets out of the sale are on balance kept in capital form, and then I think

that is all right, but I could see situations where it would seem to me that a lot of people might very well -- and this is not the old people the Chairman



1 was talking about -- but a lot of people might very  
2 well exchange for another new house and only put  
3 down the minimum equity and then proceed to have a  
4 windfall, if you will, of X thousands of dollars  
5 which they proceed to go around the world on, or  
6 something of that kind. That is what I mean by  
7 monetizing it. Is that a bad thing?

8 MR. RIEDER: I think it would be difficult  
9 here as you are talking to a group of life insurance  
10 people and this has not been a traditional mortgage  
11 field for life insurance companies, but is for other  
12 institutions like the trust companies, and so on.

13 THE CHAIRMAN: You will find there are  
14 very few institutions that are particularly interested  
15 in this for various reasons, I suppose.

16 COMMISSIONER LEMAN: What does this do to  
17 the development of towns?

18 MR. RIEDER: It lets the downtown go to seed.

19 MR. BRYDEN: I do not know that that is  
20 a valid comment on it. The F.H.A. has been available  
21 on existing houses in the United States for many years  
22 and I do not know that the central areas of their  
23 cities have held up any better than the central areas  
24 of ours because the F.H.A. have not been available on  
25 existing houses. Certainly we have been in most of  
26 the major cities in the United States and it is not  
27 our experience that the downtown areas are built up  
28 any better than ours.

29 THE CHAIRMAN: Is it not all a question of  
30 this: The people have an asset that is <sup>not</sup> easy to sell.



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people have an asset that is easy to sell.





1 MR. BRYDEN: That is right.

2 THE CHAIRMAN: Because of the difficulty  
3 of finding a purchaser who has the cash?

4 MR. BRYDEN: That is right.

5 THE CHAIRMAN: And there are many people  
6 who would like to buy that class of a house  
7 and the seller either has to take a very much lower  
8 price than he would like to accept and which is out  
9 of line with -- if there is such a thing as a true  
10 value on a house. Somebody wants to sell it and  
11 somebody wants to buy it, and what is wrong with some  
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1 COMMISSIONER GIBSON: Do you gentlemen think  
2 there is a gap in the financial system?

3 MR. McCARTHY: There may be, sir, but I  
4 don't know that it has ever been demonstrated. I  
5 would venture the opinion that the people who talk about  
6 this are the minority and there is more noise than  
7 there is substance. I make that observation having  
8 in mind that the Commission has heard much about this  
9 across the country, and it was that I had in mind. The  
10 bulk of people buying houses today buy new houses  
11 and not old ones.

12 THE CHAIRMAN: You would be surprised how  
13 difficult it is to buy a new house in certain places.

14 COMMISSIONER BROWN: Is this because it is  
15 easier to buy a new house?

16 MR. McCARTHY: I think so, and I think  
17 people want new houses as compared to old houses.

18 THE CHAIRMAN: There is a tremendous  
19 demand for old houses in certain areas of Toronto.  
20 It is very difficult to find a house for sale. There  
21 doesn't seem to be any problem of financing. People,  
22 if necessary, will pay cash for it.

23 COMMISSIONER GIBSON: Could we change the  
24 subject a little and ask one or two questions about  
25 N.H.A. mortgages? What would you think of free N.H.A.  
26 mortgage interest rates?

27 MR. McCARTHY: Freeing them?

28 COMMISSIONER GIBSON: Yes, just having  
29 a market rate and not a fixed rate?

30 MR. McCARTHY: The posted rate under N.H.A.,



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1 I think, is an integral part of the system. To have  
2 a variation on it, it seems to me, we must develop  
3 a two-sided market -- a bid and ask market for N.H.A.  
4 mortgages where people trade at discounts or premiums  
5 as do the F.H.A. mortgages in the United States. We  
6 have a piece of that market -- Central Mortgage and  
7 Housing has periodically made mortgages available.  
8 We have not organized a two-sided market yet. I would  
9 venture the opinion it is a need that will only be filled  
10 when it can be done so profitably by some group. Who  
11 that group may be, or how they would go about it, I  
12 am not certain.

13 COMMISSIONER GIBSON: You don't think it  
14 would happen if the rate were free?

15 MR. McCARTHY: The rate would be, in effect,  
16 free if the two-sided market existed.

17 COMMISSIONER GIBSON: But you say it does  
18 not exist on one side, and if it were free would this  
19 speed the development of such a market?

20 MR. McCARTHY: We are still left with  
21 the question of who would be the group on the bid side.

22 COMMISSIONER BROWN: Presumably somebody  
23 would have to set the rate, anyway if it is going to  
24 be something that is guaranteed by the Federal Government?

25 MR. McCARTHY: I think that is correct.

26 COMMISSIONER GIBSON: It is theoretically  
27 quite possible to have a guarantee at a set rate.

28 MR. McCARTHY: It may be.

29 MR. LEMMON: The rate set is not a fixed  
30 rate. It is a maximum rate. There is nothing to prevent



I think, as an economist, that the market for U.S. Government securities is a two-sided market -- a bid and ask market for U.S. Government securities. We do the F.H.A. mortgages in the United States. We have a piece of that market -- Central Mortgage and Housing has periodically made mortgages available. We have not organized a two-sided market yet. I would venture the opinion it is a need that will only be filled when it can be done so profitably by some group. Who that group may be, or how they would go about it, I am not certain.

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MR. MCCARTHY: It may be.  
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It is a maximum rate. There is nothing to prevent



1 lenders from making loans under that rate, and at  
2 certain times in the history it has been done. It has  
3 been the feeling of Central Mortgage and Housing,  
4 apparently, or some authorities in the government that  
5 if the rate was set free it would be automatically set  
6 higher than it should be, and I don't think that  
7 necessarily follows at all. I think the market conditions  
8 would set that rate the same as it sets the rate on  
9 corporation bonds or municipal bonds or conventional  
10 loans or anything else. The set rate on National  
11 Housing Act loans has been used as a method of influencing  
12 mortgage rates generally. If it were set free, that  
13 could not be done.

14 COMMISSIONER GIBSON: You don't see any  
15 particular objection to it?

16 MR. LEMMON: No. It would have the advantage  
17 of making the flow of funds in the N.H.A. loans much  
18 easier over the years. There have been periods when  
19 the flow has gone down because the rate has been not  
20 too attractive. As a matter of fact, there was a period  
21 when the flow of funds from private institutions  
22 practically disappeared. If the rate was permitted  
23 to be flexible such a situation would not occur.

24 COMMISSIONER GIBSON: Does the maximum loan  
25 provision under the N.H.A. affect the quality of housing,  
26 in your opinion -- that people will skimp to get under  
27 that maximum amount?

28 MR. LEMMON: That is a matter of opinion;  
29 it can only be a matter of opinion. In our judgment,  
30 I think the inspectors of C.M.H.C. have done a pretty





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1 good job across the country of protecting the purchasers  
2 against that sort of skimping. There certainly is  
3 a tremendous urge on the part of the builders to get  
4 under that maximum, and they undoubtedly would do  
5 such skimping if they could, but our own experience  
6 is that the inspectors of C.M.H.C. have done quite a  
7 job in preventing that sort of thing going on.

8 COMMISSIONER GIBSON: What about the pre-  
9 payment privilege of N.H.A. mortgages? Have you any  
10 views about that? Is it too liberal to make it an  
11 interesting investment?

12 MR. LEMMON: It certainly is one factor  
13 that the lenders take into account, that in periods  
14 of higher average interest rates you are never sure  
15 of the term of N.H.A. loans, and the witness of that  
16 is that we had discussions with Central Mortgage and  
17 Housing a few years ago and they finally agreed that  
18 N.H.A. loans on income properties could not be refunded  
19 within 10 years, and that made them much more attractive  
20 to institutional investors. Single houses are not  
21 quite so important because they don't tend to be  
22 refunded for a saving in interest to the same extent  
23 that income properties do. Generally speaking, when  
24 a man contracts a mortgage on his house he goes on until  
25 he sells it or until some other circumstance results  
26 in the repayment, but he does not do it to save one-half  
27 of one per cent in the interest rate. So, it is  
28 perhaps not so important with individual houses.

29 COMMISSIONER BROWN: On that particular  
30 phase of it has there been any thought at any stage



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1 of developing a mortgage document somewhat similar  
2 to that used by the building societies in the United  
3 Kingdom where the interest rate is subject to fluctuations?

4 MR. LEMMON: Not in this country, to my  
5 knowledge.

6 MR. BRYDEN: I don't think so.

7 MR. BROWN: Would it help at all?

8 MR. LEMMON: No, I don't think the  
9 situation is parallel at all. The biggest lenders  
10 on housing in Canada are life insurance companies with  
11 long-term liabilities who like to have their investments  
12 for relatively long terms. The Building Society on  
13 the other hand, has short-term liabilities and can change  
14 the rate of interest they pay on their deposits and on  
15 their shares, and therefore if the rate of interest  
16 on their assets goes down they can cut the rate of  
17 interest on their liabilities. Life insurance companies,  
18 on the other hand, cannot do that.

19 MR. BRYDEN: I think Mr. Westwater would  
20 agree that is one of the reasons why the United Kingdom  
21 companies tend not to have so many mortgages as we do --  
22 the fact it is a pretty short-term investment over there.

23 MR. WESTWATER: This is so, yes.

24 COMMISSIONER GIBSON: On the question of  
25 interest rates -- and I am referring to conventional  
26 mortgages -- when interest rates rise do you tend  
27 to take a little more generous view of the period of  
28 amortization -- the term of the loan?

29 MR. BRYDEN: That is a difficult one to  
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1 normal that you attempt to tie your amortization  
2 period to some life of the asset -- not the life  
3 exactly but the economic life of the asset, and I think  
4 that is the governing factor on most amortized amounts.  
5 So, I don't think you would alter it because you  
6 happen to have a change in the interest rates.

7 COMMISSIONER GIBSON: Do you tend to alter  
8 the size of the loan in making the conventional mortgage  
9 when interest rates rise or decline? In other words,  
10 if the rate is a little better do you have to be a  
11 little more generous in the amount of the loan, or  
12 vice versa?

13 MR. LEMMON: It might even work vice versa.  
14 In periods of tight money the borrower's bargaining  
15 power is not so good and he is more apt to accept the  
16 loan you offer. In periods of low interest rates the  
17 lender's bargaining power is not so good.

18 COMMISSIONER GIBSON: In periods of tight  
19 money you have got less to go around?

20 MR. LEMMON: Yes.

21 COMMISSIONER GIBSON: So you are trying  
22 to keep it less even though the interest rate is better?

23 MR. LEMMON: Yes.

24 THE CHAIRMAN: Gentlemen, the authorities  
25 have encouraged us to vacate this building by 4.15 P.M.  
26 We will now adjourn until 8.45 in the morning.  
27 --- Adjournment.



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# Royal Commission on Banking and Finance

The Canadian Life Insurance Officers  
Association (concluded)

Hearings  
held at  
Ottawa

Vol.

Date.

25

JULY 10 1962



Official Reporters  
J. J. Pethercut and R. J. Young  
Toronto, Ont.







ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,  
Ontario, on Tuesday,  
July 10th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter  
Chief Justice of Ontario  
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.  
Investment Dealer  
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.  
Banker  
Toronto, Ontario

Mr. Gordon L. Harrold  
Agriculturalist  
Calgary, Alberta

Mr. Paul H. Leman  
Corporation Executive  
Montreal, Quebec

Mr. John C. MacKeen  
Corporation Executive  
Halifax, Nova Scotia

Dr. W. A. Mackintosh  
Vice-Chancellor  
Queen's University  
Kingston, Ontario

Mr. H. A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



Ministry of Agriculture  
and Fisheries

1917

# ROYAL COMMISSION ON AGRICULTURE

## AND FISHERIES

REPORT OF THE COMMISSION

Hearings held at Ottawa,  
September 10, 1917.  
July 1917, 1917.

### MEMBERS

The Honorable Justices of the  
Chief Justice of Ontario  
Toronto, Ontario

Mr. W. Thomas Brown, M.B.E.,  
Investment Dealer  
Toronto, British Columbia

Mr. James Douglas Gibson, O.B.E.,  
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Corporation Executive  
Montreal, Quebec

Mr. John C. MacKeen  
Corporation Executive  
Halifax, Nova Scotia

Mr. A. A. Macdonald  
Vice-Chancellor  
Queen's University  
Kingston, Ontario

Printed by

Mr. A. A. Macdonald

John Macdonald

Mr. A. A. Macdonald



Ottawa, Ontario,  
Tuesday, July 10th, 1962.

--- At 8.45 A.M. the hearing commenced.

THE CHAIRMAN: Call the meeting to order.

COMMISSIONER GIBSON: Mr. Chairman, we were asking a few questions when we adjourned yesterday afternoon about the mortgage end of the business and I would like to pursue this a little further. One question that was discussed is the same question Mr. McCarthy said a few words about, how funds are moved from one type of investment program to another. I would like to follow this up a little further. Suppose you have a given amount of funds or an estimated amount of funds which you are going to have available in the coming year, or whatever coming period we are looking at, what are the considerations that determine the proportion of those funds that will go into mortgages? I realize you may shift from one to another as things go along, but when you are starting out on the year, how do you say, well, how much of this will go into mortgages?

MR. McCARTHY: Well, I suppose we would begin by making a judgment as to whether or not we want to increase the proportion of funds for new mortgages or whether we want to hold that proportion constant. To hold a mortgage portfolio constant a mature mortgage portfolio requires to hold the returns that are coming along.

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1 into account the needs of keeping a mortgage program  
2 together. This requires a certain minimum amount of  
3 business flowing through it in the course of a year.  
4 Beyond that it is a case of the relative attractiveness  
5 of mortgage rates as you look ahead against other forms  
6 of rates.

7 COMMISSIONER GIBSON: You look at the  
8 relative differences in yield between mortgages and  
9 other types of investments and this provides a basis  
10 of whether you increase or decrease your mortgage  
11 program but you have to take a certain volume a year  
12 to keep the machinery turning over.

13 MR. McCARTHY: It would be my opinion that  
14 the mortgage instrument would have to be extremely  
15 unattractive versus other investment criteria to turn  
16 the program off completely.

17 COMMISSIONER GIBSON: When your other yields  
18 are somewhat more attractive and there is a change in  
19 favour of other types of investments would you be  
20 inclined to lower your standards in the mortgage area  
21 a bit in order to get the better yield? There is  
22 a suggestion in your brief that there is a variation  
23 of one-quarter of one per cent between the first class  
24 mortgage and the fairly good one. That seems like  
25 a rather small variation to me. Do you go out of that  
26 range any further in order to keep your yield up?

27 MR. McCARTHY: In my own experience no, but  
28 others may wish to comment on that.

29 MR. FALKNER: I do not think that it is a  
30 question of diluting the quality of the investment.

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1 Some mortgages may command a rate of 6-3/4 per cent and  
2 by the same token it would be perfectly logical to  
3 make another mortgage investment on a different type  
4 of property possibly at 6½ per cent. I am simply  
5 using these percentages as an example.

6 COMMISSIONER GIBSON: Well, sticking to  
7 the residential mortgages there is a difference in  
8 quality here. For instance, yesterday we were talking  
9 about mortgages on existing properties and here is an  
10 area where perhaps you get a little higher rate.

11 MR. FALKNER: It might appear logical that  
12 that would be so, but I think the risk might be  
13 reflected possibly in underwriting practices and it  
14 should command the same rate of return as on an old  
15 residential property as possibly a new property and  
16 the quality of the investment might be reflected in  
17 the ratio of the loan you would be prepared to make.

18 COMMISSIONER MacKEEN: Would not location  
19 have a good deal to do with it?

20 MR. FALKNER: Very definitely.

21 MR. RIEDER: I believe there is one further  
22 factor in planning your program for the year -- your  
23 demand or probable demand for housing in the coming  
24 year.

25 COMMISSIONER GIBSON: You look at the  
26 supply that is likely to be available?

27 MR. RIEDER: The need and the supply.

28 COMMISSIONER GIBSON: Does the mortgage  
29 program vary quite widely in individual companies?  
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1 Your total figures do not vary so very widely but is  
2 there a big variation in individual companies from  
3 year to year?

4 MR. McCARTHY: Some companies are more  
5 flexible than others, I believe. There are some  
6 companies who use the mortgage investment field  
7 as the principal and almost the main outlet for most  
8 of their funds and there are other companies at the  
9 other extreme that will vary a program as much as  
10 50 per cent from year to year depending on their  
11 assessment of the relative attractiveness of mortgage  
12 development.

13 COMMISSIONER GIBSON: The more attractive  
14 it is the more likely it is to be fairly steady?

15 MR. McCARTHY: No, I would not say that.  
16 It is just what is in the minds of the people who  
17 determine this and that I do not know.

18 MR. LEMMON: It may be interesting for  
19 you to note the cases in the last five years and the  
20 variations between the high mortgage loan approvals  
21 and the low mortgage loan approvals would be of the  
22 order of 30 per cent; in other words, the low order  
23 would be about 70 per cent of the high order.

24 MR. POYNTZ: Our own has varied more  
25 than that -- as much as double in one year what it  
26 was the year before.

27 COMMISSIONER GIBSON: Are these decisions  
28 made at the beginning of each year?

29 MR. POYNTZ: Yes they are.  
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2 MR. BRYDEN: In our case, Mr. Chairman,  
3 we normally reinvest the maturing section of the  
4 existing account and, of course, we are able with the  
5 big demand for houses in some years to run as high  
6 as more than 100 per cent of our total new money  
7 into the mortgage account, and this was reduced to  
8 a place some ten years ago where we were putting about  
9 50 per cent of our new money in. That was raising  
10 the percentage of new and for the last three or four  
11 years our ratio has remained relatively constant at  
12 around 38 per cent and 40 per cent with the result  
13 that you are reinvesting your repayments at about 38  
14 to 40 per cent of your new payments into that area.  
15 There may have been in the last year or so a tendency  
16 for the total to decline slightly but not much.

17 COMMISSIONER GIBSON: Mortgages have to  
18 become relatively more attractive in relation to bond  
19 investments because of the reduction in the cost of  
20 administration. There is quite a marked reduction  
21 in the cost of administration.

22 MR. BRYDEN: There has been quite a reduction,  
23 yes, over a time but probably the answer to that is  
24 that your existing organizations have been able to get  
25 a bigger volume with very little increase in personnel  
26 and other costs.

27 If I may, Mr. Chairman, the subject came up  
28 about loans on existing houses and we have found amongst  
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1 residential loans in 1961 were 67 per cent of all loans,  
2 loans on existing residential were 14 per cent which  
3 gave you a total of residential loaning of 81 per cent.  
4 Then new other urban would be 14 per cent, existing  
5 other urban 5 per cent, and farm is nothing, so the  
6 other urban would be 19 per cent.

7 ~~QUESTION~~ COMMISSIONER BROWN: What is "other urban"?

8 MR. BRYDEN: That would be office buildings,  
9 factories, and anything other than residential --  
10 stores, shopping centres, et cetera.

11 ~~QUESTION~~ COMMISSIONER BROWN: Commercial and  
12 industrial?

13 MR. BRYDEN: Commercial and industrial et  
14 cetera. And that has changed relatively little over  
15 the last three years. The existing residential loans  
16 as a percentage of total loanings in 1959 was 16 per  
17 cent, in 1960 was 12 per cent, in 1961 14 per cent.  
18 So that is the extent to which the insurance industry  
19 participated in loans on existing houses as of now.

20 ~~QUESTION~~ COMMISSIONER GIBSON: That is as of 1961,  
21 is it?

22 ~~ANSWER~~ MR. BRYDEN: The last three years, 1959,  
23 1960 and 1961.

24 ~~QUESTION~~ COMMISSIONER GIBSON: Thank you very much.  
25 Going back to the decline in administrative costs  
26 you say it is largely a case of bigger volume, is it?

27 ~~ANSWER~~ MR. BRYDEN: I would have thought so.

28 ~~QUESTION~~ MR. LEMMON: Yes, almost entirely. The  
29 absolute expenses have gone up but it is the base that  
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1                   COMMISSIONER GIBSON: And this would apply  
2 more to larger organizations than to smaller ones?

3                   MR. LEMMON: I presume it would.

4                   MR. HOLMES: Mortgage accounting is another  
5 factor in cost. They have been able to get mortgage  
6 accounting effectively onto the machines which is much  
7 faster than formerly.

8                   MR. POYNTZ: I think the relative mix has  
9 something to do with it all. If the mortgage account  
10 is being held fairly stable by the reinvestment of  
11 repayments only the acquisition cost is relatively  
12 lower.

13                   COMMISSIONER GIBSON: Could you give us  
14 some idea of the differences in costs of various  
15 kinds of residential mortgage loans? First of all,  
16 is there any substantial difference in cost between  
17 getting National Housing Act mortgages and conventional  
18 mortgages of approximately the same size?

19                   MR. LEMMON: We have tried in our shop,  
20 Mr. Chairman, to put some figures on this. It is  
21 awfully difficult, it is a pretty arbitrary procedure  
22 but generally speaking it is more expensive to put  
23 a National Housing Act loan on your books than a  
24 conventional loan. There is another party involved  
25 and there are certain procedures to be gone through  
26 and certain approvals to be obtained, certain regulations  
27 to be followed which introduces another factor and  
28 principally because there is a third party in the  
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COMMISSIONER DICKSON: Could you give us some idea of the differences in costs of various kinds of residential mortgage loans? First of all, is there any substantial difference in cost between getting National Housing Act mortgages and conventional mortgages of approximately the same size?

MR. THOMAS: We have tried in our shop, Mr. Chairman, to put some figures on this. It is actually difficult, it is a pretty arbitrary procedure but generally speaking it is more expensive to get a National Housing Act loan on your books than a conventional loan. There is another party involved and there are certain procedures to be gone through and there are certain things which introduce another factor and principally because there is a third party in the transaction the cost of putting a new National Housing Act loan on your books is more than putting a small





1 conventional loan on your books. The exact extent of  
2 that would be a pretty arbitrary estimate.

3 Mr. Rieder brings up the question that  
4 there are two ways of handling National Housing Act  
5 loans. You can do it on insured advances or uninsured  
6 advances. In the case of uninsured advances the  
7 lender gets part of the fee that C.M.H.C. charges for  
8 the National Housing Act loan to offset the expense that  
9 the lender incurs in doing the inspections and following  
10 it through. That increases the expense and also the  
11 lender gets some fee for doing it. In the insured  
12 advances the lender is not put to the same extra expense  
13 because C.M.H.C. carries the risk over the construction  
14 period.

15 COMMISSIONER GIBSON: Which of those choices  
16 do the insurance companies tend to prefer?

17 MR. LEMMON: I think each company will have  
18 to speak for itself on that one. In our case we are  
19 operating an existing organization with an experienced  
20 manager and inspectors and we tend to proceed on what  
21 we call the uninsured advance basis. In other areas  
22 where we do not have such an organization we operate  
23 on the insured advance system.

24 MR. RIEDER: We are the same.

25 MR. FALKNER: We are substantially uninsured  
26 lenders across the country.

27 COMMISSIONER GIBSON: Is this difference in  
28 costs between N.H.A. and conventional an important  
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1 MR. LEMMON: There again, Mr. Chairman,  
2 the decision would be different from company to company.  
3 I am only speaking of our own experience where it is  
4 a factor; in other words, where the rate spread gets  
5 to be down to one-quarter of one per cent between  
6 conventional and National Housing Act you might put  
7 one product mix on your books; if it got as wide as  
8 one-half we would probably reduce our participation  
9 in the National Housing Act and steer more to conventional  
10 and the excess cost of the National Housing Act is a factor  
11 in it -- not the final determining factor because, like  
12 most companies, we have an existing organization and  
13 it does not save us any money to have that organization  
14 sitting on its hands.

15 COMMISSIONER GIBSON: Now, on the differences  
16 in costs of putting mortgages into companies' books,  
17 does it cost more for different sized loans, say, between  
18 \$10,000 and \$20,000 on a single unit structure?

19 MR. LEMMON: Well, many of the costs are  
20 similar, if not the same, regardless of the size of the  
21 loan, and therefore on a unit basis, on a dollar  
22 invested basis the cost of the larger loan is less than  
23 the cost of the smaller loan.

24 Generally speaking we use a little more  
25 inspection the larger the loan gets, but the costs do  
26 not go up in relation to the size of the loan.

27 COMMISSIONER GIBSON: Is that one of the  
28 reasons why some companies seem to prefer conventional  
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1 MR. LEMMON: Some companies carry them to  
2 a very extensive degree and they are only interested  
3 in very large loans from a cost factor.

4 COMMISSIONER GIBSON: I am talking of  
5 residential loans now. But there is a difference  
6 between a \$10,000 mortgage and a \$20,000 mortgage,  
7 the cost of putting it on your books would not be very  
8 great, I suppose?

9 MR. LEMMON: No, it would not, but the  
10 spread is not usually that wide. The National Housing  
11 Act loans go up to \$14,000 now. It is true that  
12 conventional loans go to \$20,000, \$25,000, but an  
13 awful lot of them are in the area of \$15,000 or \$20,000  
14 anyway, so that the difference in size as far as single  
15 houses are concerned, I do not think, is nearly as great  
16 a factor as the difference in absolute rate between  
17 National Housing Act and conventional.

18 MR. BRYDEN: I was going to say, still in  
19 the area of housing, once you move over into apartments  
20 it is obviously cheaper to administer one apartment  
21 loan for, say, \$500,000 than a number of single unit  
22 loans of \$10,000 or \$20,000. It is cheaper to administer  
23 and acquire.

24 COMMISSIONER GIBSON: What about the difference  
25 in costs between a mortgage on a new residence or new  
26 residential property that is being built and an existing  
27 property, is this a factor?

28 MR. LEMMON: In my opinion, no.

29 MR. BRYDEN: You go through the same valuation  
30 procedures, the same procedure of putting the mortgage in



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MR. BRYDEN: You go through the same valuation

procedures, the same procedure of putting the mortgage in



1 effect et cetera.

2 MR. LEMMON: Investigation of credit, et cetera.  
3 I do not think that is an appreciable factor.

4 COMMISSIONER GIBSON: If there was a mortgage  
5 already on an existing property and it was just a matter  
6 of increasing it, this would reduce the cost slightly?

7 MR. LEMMON: Yes, it is the legal costs  
8 it reduces to a considerable degree.

9 COMMISSIONER GIBSON: When mortgage money is  
10 available do residential borrowers show so much response  
11 to changes in interest rates in your view? In other  
12 words, are people less apt to take on the business of  
13 buying a house if the interest rate is one per cent  
14 higher than if it was a bit lower?

15 MR. LEMMON: I am afraid that as in the case  
16 of small loans and instalment finance that interest  
17 rate is only an incidental factor in that. It becomes  
18 a factor if two houses are for sale and one carries a  
19  $6\frac{1}{2}$  per cent loan and the other carries a 7 per cent  
20 loan. It may get to be a factor in the relative  
21 attractiveness of those two houses. But in my opinion  
22 the fact that an interest rate is 7 per cent or  $6\frac{1}{2}$  per  
23 cent is not a factor in whether he buys a house or not.

24 MR. BRYDEN: I think normally, Mr. Chairman,  
25 the mortgage loan calling for a monthly payment, it is  
26 the amount of the monthly payment that he ties into his  
27 own budget. I do not think the interest rate has a  
28 very great influence in that case.

29 COMMISSIONER GIBSON: Of course the monthly  
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12 words, are people less apt to take on the business of

11 to changes in interest rates in your view? In other

10 available do residential borrowers show so much response

9 COMMISSIONER GIBSON: When mortgage money is

8 it reduces to a considerable degree.

7 MR. LEMMON: Yes, it is the legal costs

6 of increasing it, this would reduce the cost slightly?

5 already on an existing property and it was just a matter

4 COMMISSIONER GIBSON: If there was a mortgage

3 MR. LEMMON: Investigation of credit, et cetera.





1 MR. BRYDEN: Oh, sure it is but I think the  
2 normal buyer looks at the amount of money it is going  
3 to take him to carry that loan per month, interest and  
4 principal and that is reflected in his own budget.

5 COMMISSIONER GIBSON: You do not think he  
6 is particularly sensitive to moderate changes in these  
7 actual charges?

8 MR. LEMMON: There are two other factors  
9 in the actual charge zone. One is the size of the loan  
10 and the other the term of the mortgage and if you juggle  
11 either two factors then the interest can fade out actually  
12 as a factor.

13 COMMISSIONER BROWN: This came up yesterday  
14 as to the extent you did juggle mortgages. I think the  
15 answer was you did not juggle mortgages.

16 MR. BRYDEN: I think that is a reasonable  
17 answer to that one. What I had in mind more particularly  
18 was when the National Housing Act extended its terms  
19 of mortgage from 25 to 30 years a number of us had  
20 builders' loans on our books that were unsold, but  
21 there is a certain requirement as far as adequacy of  
22 carrying charges on a house to the man's income.



normal buyer looks at the amount of money it is going to take him to carry that loan per month, interest and principal and that is reflected in his own budget.

COMMISSIONER GIBSON: You do not think he is particularly sensitive to moderate changes in these actual charges?

MR. LEMMON: There are two other factors in the actual charge zone. One is the size of the loan and the other the term of the mortgage and if you judge either two factors then the interest can fade out actually as a factor.

COMMISSIONER BROWN: This came up yesterday as to the extent you did judge mortgages. I think the answer was you did not judge mortgages.

MR. BRYDEN: I think that is a reasonable answer to that one. What I had in mind more particularly was when the National Housing Act extended the term of mortgage from 25 to 30 years a number of us had said, "Well, that is not a very great thing." There is a certain requirement as far as adequacy of carrying charges on a house to the man's income.



1 There was some juggling of the term of the loans to  
2 enable those houses to be sold. I do not think, if  
3 that answer which was made yesterday is true, that that  
4 is an extensive practice on the part of lending  
5 institutions because if the borrower is in the position  
6 where you have to extend the term of the loan for two,  
7 three, four, five years and there is not the income  
8 to qualify it, he is a pretty marginal borrower and  
9 you try to find somebody else or let the loan go.

10 COMMISSIONER GIBSON: Would the individuals  
11 that build and own apartment houses be more sensitive  
12 to interest rate changes than ordinary residential  
13 purchasers?

14 MR. LEMMON: I think that is a fair statement.  
15 I would say they are more sensitive.

16 COMMISSIONER GIBSON: When interest rates  
17 go down, this tends to bring in more applications of  
18 this kind, does it?

19 MR. LEMMON: I would not have thought of  
20 it in those terms. I think the apartment situation  
21 is more the determining factor as to whether there  
22 is a large volume of applications come in or not.  
23 I do not think the interest rate is the determining  
24 factor. I was thinking more in my answer that if a  
25 man is planning an apartment house and it looks as  
26 if he is going to be able to get a loan at  $6\frac{1}{2}$  per cent  
27 but before he gets finished with his plan he finds that  
28 it is 7 per cent, he may take another look at it.

29 COMMISSIONER GIBSON: So there would be quite  
30 a few pieces of postponements when the rates were rising?





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COMMISSIONER GIBSON: So there would be quite

a few pieces of postponement when the rates were rising?





1 MR. LEMMON: In our case, yes. He assesses  
2 his market and he decides he can get \$125 or \$135 per  
3 month for those suites, he looks at the economics of  
4 it and finds there is only one-half of one per cent  
5 going into the interest rate; that makes him think  
6 about the economics of it.

7 COMMISSIONER GIBSON: So he responds properly,  
8 as he should. What about the other side of it? This  
9 same man has postponed this project because the rate  
10 has gone up more than he expected in his plans and  
11 there is not a margin there. Does he wait until the  
12 rates go down again and then take out the plans and  
13 dust them off?

14 MR. LEMMON: He certainly takes them out  
15 and dusts them off and if the market for apartments  
16 is still the same as it was before he may proceed with  
17 it.

18 COMMISSIONER GIBSON: So it would work to  
19 some extent both ways?

20 THE CHAIRMAN: Providing the cost of  
21 construction has not changed.

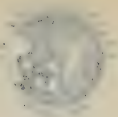
22 MR. LEMMON: He would then determine the  
23 market, and if the other factors have not changed he  
24 may then proceed.

25 COMMISSIONER GIBSON: Let us say that the  
26 other things are equal.

27 MR. LEMMON: All things being equal, yes,  
28 that is right.

29 COMMISSIONER GIBSON: Thank you very much.

30 COMMISSIONER BROWN: I just have two



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1 questions I should like to ask in connection with  
2 mortgages.

3 Do the different provincial laws affect  
4 your distribution of mortgage funds at all? We have  
5 heard stories in the different provinces, that it is  
6 a little more difficult to make your mortgage effective.

7 MR. LEMMON: The provincial legislation  
8 does vary from province to province, and the attitude  
9 of the courts varies from province to province. I  
10 cannot help but think it does have some effect on the  
11 lender's attitude. Just how much effect is awfully  
12 difficult to measure.

13 COMMISSIONER BROWN: Does it affect your  
14 thinking on distribution of funds?

15 MR. LEMMON: I cannot help but think it  
16 does, but to what extent I cannot tell you. We ourselves  
17 make loans in all provinces. I think our committee  
18 does bear in the mind the fact that the situation is  
19 different from province to province.

20 COMMISSIONER BROWN: The other question I  
21 have to ask is somewhat along the same lines. Mention  
22 was made of the fact that locality enters into the  
23 question of rates to a certain degree.

24 MR. LEMMON: Yes.

25 COMMISSIONER BROWN: This would be locality  
26 referring to being near a city or out in the country,  
27 presumably; in a good area or poor area?

28 MR. LEMMON: You could take extreme cases,  
29 Mr. Chairman. Certainly the rate of interest in the  
30 mining communities in Northern Ontario are higher than



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29 Mr. Chairman. Certainly the rate of interest in the

30 different localities is a factor in the question.





1 those in the more desirable residential areas in  
2 Toronto.

3 COMMISSIONER BROWN: Yes. My question now  
4 is directed to a wider scale. Are there large regional  
5 differences in interest rates? For instance, are your  
6 mortgages rates higher in the Maritimes and in the West  
7 than in Ontario?

8 MR. LEMMON: Mr. Chairman, that is a  
9 peculiarity of mortgage financing in Canada. There is  
10 much more uniformity of rate on mortgage lending across  
11 Canada than there is across the United States. There  
12 is much more variation in the rate between communities  
13 in the United States than there is between communities  
14 in Canada. Generally speaking in a desirable residential  
15 area in Vancouver, Winnipeg, Ottawa, Montreal or  
16 Halifax the rate would be about the same.

17 COMMISSIONER BROWN: One is tempted to ask  
18 if you deliberately left out reference to Toronto.

19 MR. LEMMON: No, I brought Toronto into  
20 the picture before and I saw some smiles go around so  
21 I left Toronto this time.

22 That is not necessarily the case in the  
23 United States. For instance, on the Pacific Coast  
24 of the United States; Los Angeles, San Francisco,  
25 the rates are possibly higher than they are in Philadelphia,  
26 Boston and New York.

27 COMMISSIONER BROWN: Would you care to make  
28 a comment as to this being because of the different  
29 structure of the mortgage industry in Canada than in  
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1 MR. LEMMON: The reason for it can only be  
2 a matter of opinion. It cannot be a categorical answer.

3 Part of the reason is that the lenders in  
4 Canada tend to be national lenders lending from Halifax  
5 to Vancouver. In the United States the lenders are much  
6 more local lenders than they are in Canada. Los Angeles  
7 for instance, being an area of tremendous growth with  
8 wide demand for money and the local money not meeting  
9 it, it takes a little more in attraction to overcome  
10 the inertia in persuading lenders from Boston institutions  
11 to lend in Los Angeles than it does in Canada where the  
12 lenders are generally national lenders.

13 COMMISSIONER LEMAN: Is there really more  
14 supply in the United States in relation to the demand  
15 for mortgage loans which would make the market a little  
16 more sensitive there?

17 MR. LEMMON: Certainly the United States  
18 is more of a capital producing country than Canada,  
19 although I still think the other factor is by far the  
20 more important factor than the relative supply and  
21 demand for funds in the two countries.

22 COMMISSIONER GIBSON: Talking about the  
23 comparative situation in Canada and the United States,  
24 I was wondering if Mr. Falkner might like to say a word  
25 or two about his view of Fanny Mae and its effect  
26 in producing a mortgage market in the United States?

27 MR. FALKNER: I will offer what I can, Mr.  
28 Chairman.

29 You will appreciate that while I represent  
30 the American company, I represent that portion that





MR. LITTON: The reason for it can only be a matter of opinion. It cannot be a categorical answer. Part of the reason is that the lenders in Canada tend to be national lenders lending from Halifax to Vancouver. In the United States the lenders are much more local lenders than they are in Canada. Los Angeles for instance, being an area of tremendous growth with wide demand for money and the local money not meeting it, it takes a little more in attraction to overcome the inertia in persuading lenders from Boston Institution to lend in Los Angeles than it does in Canada where the lenders are generally national lenders.

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MR. LITTON: Certainly the United States is more of a capital producing country than Canada, although I still think the other factor is by far the more important factor than the relative supply and demand for funds in the two countries.

COMMISSIONER GIBSON: Talking about the comparative situation in Canada and the United States, I was wondering if Mr. Falkner might like to say a word or two about his view of Fanny Mae and its effect in producing a mortgage market in the United States?

You will appreciate that while I represent the American company, I represent that position that





operates exclusively in Canada. Fanny Mae was developed in the United States -- what is called Fanny Mae is the Federal National Mortgage Association -- I believe in 1938 and one of its functions was to generate what they called a secondary market. That is, it was a governmental vehicle set up to buy and sell insured F.H.A. loans which in essence compare with our N.H.A. insured loans, or Guaranteed Veterans' Administration Loans. This was a government sponsored loan which was 75 per cent insured and 25 per cent conventional. Fanny Mae in the open market bought and sold these types of loans.

As a matter of interest, I spoke to our people only this morning to get further details on its operation, and I am told that it is not very effective today.

It buys mortgages when rates are declining, and usually buys them at a discount, and it sells mortgages in times of rising rates. Not all companies participate. Usually the major buyers would be those companies that have not got an organization to put mortgage loans on their books. The sellers might be insurance companies and banks.

I think that possibly its role has probably been exaggerated; it has probably been exaggerated. This is the impression that I got today in respect to it.

One feature about it that prohibits, or at least keeps a number of participants out is the fact you must subscribe to the stock of Fanny Mae to the extent of  $2\frac{1}{2}$  per cent of the volume of loans that



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1 you sell, and you then become a shareholder in Fanny Mae.  
2 I believe this stock over the years has paid a dividend  
3 averaging somewhere in the area of 5 to 5 $\frac{1}{4}$  per cent.  
4 A lot of companies objected to that feature in Fanny  
5 Mae. I believe that the purpose of that is to ultimately  
6 wind up creating a company without any government owner-  
7 ship.

8 That would encompass my knowledge of  
9 Fanny Mae, Mr. Chairman.

10 COMMISSIONER GIBSON: You say it sells when  
11 rates are rising? Surely that would be the other way  
12 around?

13 MR. FALKNER: I am sorry, when prices are  
14 rising.

15 COMMISSIONER GIBSON: When prices are rising,  
16 yes. It deliberately tries to stabilize the market?

17 MR. FALKNER: Yes, that is correct.

18 COMMISSIONER GIBSON: But you are not too  
19 impressed with its record in stabilizing the mortgage  
20 market?

21 MR. FALKNER: I do not think so. There might  
22 be representatives of companies here who operate both  
23 in Canada and in the United States from their Canadian  
24 headquarters who might have more experience than I  
25 in this regard, but this is the impression I gained  
26 of the operation of Fanny Mae.

27 COMMISSIONER GIBSON: Is it a useful adjunct  
28 to the insurance company from the liquidity point of  
29 view in providing a place where you can go and sell  
30 a large batch of mortgages?





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1 MR. FALKNER: I suppose if you got over  
2 invested in mortgages it would probably fulfill some  
3 use there.

4 MR. BRYDEN: Mr. Holmes, would you care to  
5 make any comment in respect to that operation?

6 MR. HOLMES: We have not had nay operation  
7 in respect to F.H.A. loans at all.

8 MR. BRYDEN: Mr. Chairman, I wonder if in  
9 respect to the matter of the secondary mortgage market,  
10 I could refer your research staff to a book called  
11 The Secondary Mortgage Market, Its Purposes, Performance,  
12 and Potential by Oliver Jones and Leo Grebley, a publication  
13 of the Real Estate Research Programme, Graduate School  
14 of Business Administration, University of California.  
15 It deals in great detail with the development of the  
16 secondary mortgage market in the United States.

17 THE CHAIRMAN: That is published by the  
18 University of California?

19 MR. BRYDEN: Yes.

20 COMMISSIONER GIBSON: I think we have that,  
21 Mr. Bryden.

22 THE CHAIRMAN: Apparently we have it.

23 MR. LEMMON: It is the best book we have on  
24 that subject.

25 MR. BRYDEN: Mr. Gibson, I referred it to  
26 your research staff.

27 THE CHAIRMAN: They have it.

28 COMMISSIONER GIBSON: Thank you very much.

29 THE CHAIRMAN: It has not reached us yet.

30 MR. BRYDEN: I see.

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1 switch now from mortgages back to a subject we thrashed  
2 around a little bit yesterday, and that is the knotty  
3 problem of the common stock portfolio.

4 First of all we would just like to clarify  
5 the situation with respect to the present legislation  
6 and the 15 per cent rule. The points that arise are  
7 first, that a United Kingdom company operating in  
8 Canada show assets each year at the market value.  
9 What happens if your stock holdings, because of a market  
10 increase, show that you are in excess of that 15 per cent?

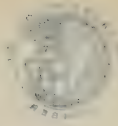
11 MR. WESTWATER: You are required to make  
12 up the deficiency in your deposit with bonds or mortgage  
13 investment, or some other mediary of investment until  
14 such time as the whole deposit grows in size to the  
15 15 per cent common stock. You cannot put any more  
16 common stock up until the delivery has been restored.

17 COMMISSIONER BROWN: This applies even though  
18 the market value of your other securities has not gone  
19 down and in fact your surplus has been increased by  
20 an increase in the market price of your common stock?

21 MR. WESTWATER: That is so.

22 COMMISSIONER BROWN: What happens with a  
23 Canadian company? We have this list that you made up  
24 showing the four columns that we discussed yesterday,  
25 and you have the book value and the market value.  
26 What happens if the book value of the common stock is  
27 only 5 per cent and the market value goes up to say  
28 16 per cent?

29 MR. LEMMON: The Canadian Act says this  
30 is based on book value so nothing happens.



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1 COMMISSIONER BROWN: Nothing happens even  
2 though the market value has increased. You take a look  
3 at the whole thing to see that you are in good standing?

4 MR. LEMMON: That is quite right because  
5 the wording of the Act is that 5 per cent of the ledger  
6 value, or 10 per cent in the case of real estate is  
7 the figure.

8 COMMISSIONER BROWN: I see.

9 MR. LEMMON: It is based on ledger value.

10 COMMISSIONER BROWN: This means that the  
11 United Kingdom companies operating in Canada are under  
12 greater disabilities in respect to this problem of  
13 market fluctuation and its effect on the common stock  
14 portfolio?

15 MR. LEMMON: That is right.

16 COMMISSIONER BROWN: But they are prepared  
17 to operate much nearer this limit than Canadian  
18 companies. Why are Canadian companies so reluctant  
19 to move up?

20 MR. BRYDEN: Once again, Mr. Brown, I think  
21 we are getting back to the matter of the valuation  
22 procedures that we have and the effect that a downward  
23 swing in a large sized stock portfolio, would have  
24 on your surplus. I think those two things are tied  
25 up together. If, for example, the average surplus  
26 position say of the Canadian companies was 5 per cent,  
27 and if you had a common stock portfolio of 15 per cent,  
28 and if you had a 1/3 decline, as conceivably you might  
29 have at some point; if that happened to be on your  
30 valuation date your balance sheet effectively would show





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to operate much nearer this limit than Canadian companies. Why are Canadian companies so reluctant to move up?

MR. BRYDEN: Once again, Mr. Brown, I think

we are getting back to the matter of the valuation procedures that we have and the effect that a downward swing in a large sized stock portfolio would have on your surplus. I think those two things are tied up together. If, for example, the average surplus position say of the Canadian companies was 5 per cent, and if you had a common stock portfolio of 15 per cent, and if you had a 1/3 decline, as conceivably you might have at some point, if that happened to be on your



1 your surplus wiped out.

2 COMMISSIONER BROWN: The common stock  
3 holdings of the Canadian companies, you say, on the  
4 average are shown at only about one-half their market  
5 value, so they have this margin in there already, have  
6 they not?

7 MR. BRYDEN: Yes, but the effect that a  
8 large swing of common stock market values could have  
9 on your surplus I think is one of the reasons why the  
10 Canadian companies do not approach the 15 per cent  
11 limit, and why you would find that the common stock  
12 holdings are a much smaller percentage. I think they  
13 are  $3\frac{1}{2}$  to 4 per cent even at book value.

14 COMMISSIONER BROWN: The United Kingdom  
15 companies are subject to much greater fluctuations  
16 than Canadian companies?

17 MR. LEMMON: Only in one small piece of  
18 their business. Namely, the Canadian piece which may  
19 be only 10 per cent of their total operation.

20 MR. POYNTZ: As we mentioned yesterday,  
21 there is some flexibility in the valuations of the  
22 liability supply.

23 COMMISSIONER BROWN: But not for Canadian  
24 companies.

25 MR. POYNTZ: But not for Canadian companies.

26 MR. LEMMON: That is only a small percentage  
27 of their total operation whereas in respect to  
28 Canadian life companies, it is our whole operation  
29 we are talking about.

30 COMMISSIONER GIBSON: How could that explain

your surplus wiped out.

holders of the Canadian companies, you say, on the average are shown at only about one-half their market value, so they have this margin in there already, have they not?

MR. BRYDEN: Yes, but the effect that a large swing of common stock market values could have on your surplus I think is one of the reasons why the Canadian companies do not approach the 15 per cent limit, and why you would find that the common stock holdings are a much smaller percentage. I think they are  $2\frac{1}{2}$  to 4 per cent even at book value.

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COMMISSIONER BROWN: But not for Canadian companies.

MR. FOYNT: But not for Canadian companies.

MR. LEMMON: That is only a small percentage of their total operation whereas in respect to Canadian life companies, it is one whole operation we are talking about.

COMMISSIONER GLEASON: How could that explain





1 the present low ratio, because there is a sizeable  
2 margin between the book and market, and in addition  
3 the average ratio is only 3 per cent? In these  
4 circumstances supposing Canadian companies were to  
5 double their holdings of stock, and perhaps even more  
6 than that; that still would not affect the surplus  
7 very much, would it?

8 MR. RIEDER: Most of our portfolios were  
9 acquired some years ago when stock prices were low.

10 COMMISSIONER GIBSON: But they went down  
11 recently, Mr. Rieder.

12 MR. RIEDER: Not far enough, perhaps.

13 COMMISSIONER BROWN: The point is, if they  
14 were acquired a long time ago and show on the books  
15 at 3 per cent and the market is double that, you could  
16 see the market cut in half and your present holdings  
17 are not going to affect your surplus position.

18 MR. HOLMES: If you had 15 per cent it  
19 would cost quite a bit to write it down to half. If  
20 we went up to our limit at half we would have 30 per  
21 cent at market value of common stock and 15 per cent  
22 at book. That would be quite a charge on surplus to  
23 get it down to half; that is your book value down  
24 to half of your market, unless you happened to buy  
25 at the right time and have the appreciation.

26 COMMISSIONER GIBSON: We are not really  
27 saying it should be at 15 per cent or anything else.  
28 We just wondered why it is not higher than 3, because  
29 it is hard to see that this is much of a barrier under  
30 the present situation.

the present low ratio, because there is a sizeable margin between the book and market, and in addition the average ratio is only 3 per cent? In these circumstances suggesting Canadian companies were to double their holdings of stock, and perhaps even more than that; that still would not affect the surplus very much, would it?

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MR. HOLMES: If you had 15 per cent it would cost quite a bit to write it down to half. If we went up to our limit at half we would have 50 per cent at market value of common stock and 15 per cent at book. That would be quite a charge on surplus to get it down to half: that is your book value down to half of your market, unless you happened to buy at the right time and have the appreciation.

COMMISSIONER GIBSON: We are not really saying it should be at 15 per cent or anything else. We just wondered why it is not higher than 3, because it is hard to see that this is much of a barrier under



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1 COMMISSIONER BROWN: Under the circumstances,  
2 why do you want it up to 25 per cent?





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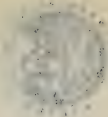


1 THE CHAIRMAN: I understood they were not  
2 too enthusiastic; I understood that from what you said  
3 yesterday.

4 MR. LEMMON: Mr. Chairman, you are into the  
5 area here of different management operations of the  
6 various life companies, and it is quite true to say  
7 that the average of all life insurance companies is  
8 around three to four per cent. The average, as in  
9 most cases, covers a pretty wide variation. There  
10 are some companies who do not go into common stocks  
11 to any extent at all and have very negligible percentages;  
12 there are those who enter into it to a very heavier  
13 extent than the average would indicate.

14 Now, I would not want the Commission to  
15 get the impression that the industry operates as an  
16 average; it operates as a whole group of individuals.  
17 What will affect the one company's judgment is not the  
18 same set of factors that will affect the others. The  
19 valuation is one factor that enters into the management's  
20 approach on all the percentages of trade assets owned  
21 in common stocks. There are many other factors that  
22 would enter into that, and in some companies these  
23 factors directly eliminate common stocks from the program.  
24 One of the largest United States companies believes  
25 that common stocks does not constitute a suitable invest-  
26 ment for life insurance funds at all and have publicly  
27 taken that attitude.

28 So that you are covering the whole wide range,  
29 and you may have companies at the upper end of that range  
30



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area here of different management operations of the various life companies, and it is quite true to say that the average of all life insurance companies is around three to four per cent. The average, as in most cases, covers a pretty wide variation. There are some companies who do not go into common stocks to any extent at all and have very negligible percentages there are those who enter into it to a very heavier extent than the average would indicate.

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1 who feel the limit over the years should be higher than  
2 15 per cent, and at the lower end they could not care  
3 less.

4 COMMISSIONER BROWN: In other words, this  
5 is a minority report asking for an increase of 25 per  
6 cent?

7 MR. LEMMON: It is not a unanimous report  
8 asking for 25 per cent, but the ones who do not want  
9 it obviously are not opposing it.

10 THE CHAIRMAN: There may be some companies  
11 that are already approaching 15 per cent?

12 MR. LEMMON: I think the only ones that are  
13 really pressing on 15 per cent are the British companies.  
14 There are Canadian companies in the area of 10 per cent  
15 and 12 per cent, in that area. I do not think there  
16 are any actually pressing on 15; am I right in that?

17 MR. TUCK: Yes.

18 THE CHAIRMAN: I was wondering, and Mr.  
19 Brown brought this point out yesterday, I think. You  
20 look at the reserve requirements; I find that the brief  
21 does not deal with it as fully as it is dealt with in  
22 this little book which I was given yesterday entitled  
23 "Canadian Life Insurance Facts 1961". At the end of  
24 1960 policy reserves equalled 78.8 per cent of the total  
25 assets of Canadian companies and other obligations to  
26 the policyholders, such as amounts left on deposit of  
27 interest and policy dividends payable accounted for 11.7  
28 per cent of all assets.

29 Then, special reserves set up. As I see it  
30 from this book, at the end of 1960, the life companies



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1 held policy reserves in Canada of \$6 billion. Now that,  
2 as I understand it -- and if I am wrong I can be  
3 corrected on this -- that \$6 billion is the reserve  
4 required by law. Am I right?

5 MR. BRYDEN: Fundamentally.

6 THE CHAIRMAN: So that the assets that they  
7 have in excess of that are -- I think the total assets  
8 are about \$8 billion.

9 MR. BRYDEN: That is right.

10 THE CHAIRMAN: So that there is approximately  
11 \$2 billion excess assets over the legal reserve.

12 MR. POYNTZ: The other liabilities are  
13 actual liabilities, Mr. Chairman; the policy reserves  
14 themselves are not a full measure of liability.

15 THE CHAIRMAN: Oh no, I understand that, but  
16 with that \$6 billion reserve you are complying with  
17 the law?

18 MR. POYNTZ: In case you refer to other  
19 deposits, as for example dividends left on deposit,  
20 they constitute a liability just the same as the reserves  
21 on the policies. I think the \$6 billion you spoke of  
22 is the actuarial measure of liabilities under policies,  
23 but the reserve is required also in respect of these  
24 other amounts.

25 THE CHAIRMAN: Well, what are they called?  
26 Are they the special reserves? Special reserves are  
27 mentioned here. What are they?

28 MR. BRYDEN: Could you tell us what page this  
29 is?

30 THE CHAIRMAN: It is on page 22, and I am looking





THE CHAIRMAN: So that the assets that they have in excess of that are -- I think the total assets are about \$2 billion.

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THE CHAIRMAN: It is on page 22, and 7 on page 21.



1 at this book. I do not know where to find it in the  
2 brief. I just cannot be clear on what the various things  
3 indicate and what it all adds up to and what the net  
4 position is.

5 MR. BRYDEN: Well, again reading from this,  
6 the policy reserve equals 78.8 per cent; that is the  
7 reserve which must be maintained by law as being the  
8 amount now which together with future premiums and  
9 future interest earnings will let you meet your commitments  
10 under your business in force.

11 In addition to that there are all sorts of  
12 current, very real liabilities; for example, amounts  
13 left on deposit, and so on. Now, these other obligations  
14 to policyholders, policy dividends and the amounts left  
15 on deposit, and so on, of the total are about 11.7 per  
16 cent of all the assets. Special reserves, liabilities  
17 and unassigned businesses in the paid up capital make  
18 up the remaining  $9\frac{1}{2}$  per cent.

19 On the next page, Mr. Chairman, page 23,  
20 the last sentence in the second paragraph speaks of,  
21 "In the case of Canadian companies surplus funds and  
22 contingency reserves", and that could be an investment  
23 reserve or a reserve for contingencies which equals  
24 8 per cent of the assets at the end of 1960. And so  
25 really 92 per cent of the assets represents liabilities  
26 to policyholders either in reserve form being held  
27 or else actually payable. Does that clear up the point?

28 THE CHAIRMAN: Well, I have to think about  
29 that. I will have to let that seep in. In the  
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1 Canadian companies surplus funds on a contingency reserve  
2 equals 8 per cent of the assets?

3 MR. BRYDEN: That is right.

4 THE CHAIRMAN: Well, 92 per cent is required?

5 MR. LEMMON: Yes.

6 THE CHAIRMAN: And that is in a sense ---

7 MR. BRYDEN: That is the margin, but not  
8 specifically allocated for some reason.

9 THE CHAIRMAN: But it is a surplus?

10 MR. BRYDEN: It is a surplus.

11 THE CHAIRMAN: And as far as that surplus  
12 is concerned, would it make any difference from the  
13 point of view of protection to the policyholders?

14 MR. BRYDEN: It is all for the additional  
15 protection of -- it is all for additional protection,  
16 but not needed.

17 MR. LEMMON: As Mr. Holmes pointed out  
18 yesterday, if one company due to its common stock values  
19 had that surplus cut in half or less, its competitors  
20 would lose no time in pointing it out to the general  
21 public that this particular company had played high,  
22 wide and handsome with policyholders' funds.

23 MR. HOLMES: The amendment to the Act to  
24 allow for mutualization -- the theory which Mr. McGregor  
25 followed roughly was this, that you could buy stock as long  
26 as at the end of a year that you bought stock -- at  
27 the beginning of the year you were to buy such stock  
28 during that year which would leave you with a 6 per  
29 cent surplus. That is the general theory of the way  
30 the Act is drawn up.



MR. BRYSON: That is right.

THE CHAIRMAN: Well, 25 per cent is required?

--- eases a bit at last but :WAMTIAHO TBT

THE CHAIRMAN: But it is a surprise?

THE GLICKSMAN: And as far as that surplus



1 THE CHAIRMAN: Yes. Well, what I had in mind  
2 was would it make any difference what that surplus is  
3 used for? Could there be any restriction on the type  
4 of investment which might be made?

5 MR. BRYDEN: The surplus ---

6 THE CHAIRMAN: It may not look like a very  
7 large surplus at the moment compared with the whole  
8 picture, but some day it may increase and with some  
9 companies it may be greater than with others, I suppose,  
10 is that so?

11 MR. LEMMON: Yes, although the variation  
12 is not all that wide. You see, we are participating  
13 companies mostly and tend to put out as policyholders'  
14 dividends everything over and above everything that is  
15 required as surplus.

16 MR. BRYDEN: I think normally at the end  
17 of each year you come up with what you might call a  
18 net operating revenue which really can represent an  
19 addition to your surplus funds. Now, normally out  
20 of that come your participating dividends and you  
21 would be inclined to pay out as big a proportion of  
22 those annual surplus earnings -- if you will -- in  
23 your dividends, but alternatively you would tend to  
24 hold back enough to keep your surplus gradually growing  
25 in line with the growth in the increase in assets.

26 THE CHAIRMAN: But not allowed to get  
27 beyond a certain reasonable proportion?

28 MR. LEMMON: Competition will prevent that.

29 MR. POYNTZ: Growing, but possibly not as  
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1 a ratio.

2 MR. RIEDER: The 8 per cent figure does  
3 not seem too much when you consider that an open  
4 portfolio can drop five points.

5 THE CHAIRMAN: You are not in the trust  
6 business, in other words.

7 MR. LEMMON: We are fundamentally insurance  
8 companies.

9 THE CHAIRMAN: And the moneys could be  
10 used.

11 MR. LEMMON: The agency department continually  
12 reminds us of that.

13 THE CHAIRMAN: And any surplus to be distributed?

14 MR. LEMMON: Yes.

15 COMMISSIONER MacKEEN: This might be an  
16 appropriate time to ask a question that has been  
17 intriguing me for many months. When we were going  
18 across the country it was seriously suggested, and  
19 in fact, it was recommended -- that consideration  
20 be given to not restricting reserves and various other  
21 moneys but requiring that they base at least 10 per  
22 cent of their reserves -- which would apply to banks,  
23 trust companies, life insurance companies and loan  
24 and savings companies -- in risk equities for more or  
25 less promotional enterprises, due to the developing  
26 sections of the country where there is a lack of capital  
27 for such a purpose.

28 What would your opinion be of such a  
29 recommendation?

30 MR. BRYDEN: Mr. McCarthy, I think that is one



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MR. BRYDEN: Mr. McCarthy, I think that is one





1 of the things you have had under consideration.

2 MR. McCARTHY: This business of financing  
3 new, untried enterprise?

4 MR. BRYDEN: Pardon?

5 MR. McCARTHY: This business of financing  
6 new, untried enterprises, new ideas? This has been  
7 one that has intrigued a number of the life companies  
8 for some period of time in the past year or thereabouts  
9 and the member companies, along with other financial  
10 institutions, including some of our banks, have been  
11 working towards the creation of a jointly owned risk  
12 enterprise capital type of undertaking, and we are  
13 approaching the point where I think this company will  
14 be formally launched with that very object in mind.  
15 The feeling is that this can be best undertaken by  
16 the companies generally rather than each of them  
17 attempting to do the job in its own investment department.

18 MR. BRYDEN: I believe the British practice  
19 is ---

20 MR. McCARTHY: Yes, there is the British  
21 example; the I.C.F.C. which was set up in the early  
22 postwar period by the banks there, and more recently --  
23 I cannot recall the name offhand, but it is -- it is  
24 the Technical Development Corporation, which was set  
25 up largely with insurance company participation for  
26 the same purpose and a number of the Canadian companies  
27 who are doing business in England are shareholders in  
28 that company, and we think it is a thing that could be  
29 explored.

30 In exploring it, I might make the point that



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1 some of us at least have tended to come to the conclusion  
2 that in creating new enterprise in Canada, the provision  
3 of finance is only one aspect of the problem; no amount  
4 of financial provision can create the administration  
5 or the skills that are necessary to create new  
6 businesses, and this is a problem that accompanies  
7 this and we will have to deal with it. It is just a  
8 question of when.

9 THE CHAIRMAN: I suppose the other advantage  
10 from the insurance companies' point of view would be  
11 that if the company lost money it would appear in a  
12 reduction of the surplus of all companies and not  
13 merely one.

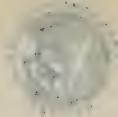
14 MR. BRYDEN: It gives for each individual  
15 company a spread of risk, which is important. I think  
16 under today's conditions a starting of a new business  
17 in this country will cause for a fair amount of initial  
18 capital. I do not know whether you could really start  
19 a business for, say, \$300,000. \$300,000 in a high  
20 risk new business is quite a risk for any individual  
21 company to take, whereas operating through this consortium  
22 not only do you make more money, but each of the parti-  
23 cipants gets a spread of the risk among the various  
24 companies which the consortium finances.

25 COMMISSIONER MacKEEN: Your participation  
26 would become an asset?

27 MR. LEMMON: Yes.

28 MR. HOLMES: On the general principle of  
29 the large companies being required to put a certain  
30 percentage of assets into any particular type of security





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1 -- we would have a great deal of objection to any such  
2 provision.

3 COMMISSIONER GIBSON: On this question of  
4 financing new businesses and small businesses, would  
5 you care to make any comments about the operation of  
6 I.D.B.?

7 MR. McCARTHY: The activities of I.D.B.  
8 are a matter of public record, and my impression is  
9 that their activities have been set up significantly  
10 in the past few years, judging from the amount of money  
11 they have been reported as advancing in the group. I  
12 would make the observation that it probably has been  
13 a useful thing, but whether it has been exploited to  
14 the whole possible extent in this country, I just do  
15 not know.

16 MR. BRYDEN: I do not think there is any  
17 significant difference between I.D.B. and the life  
18 insurance companies in the sense of competition. I  
19 think on balance they have been rather complimentary  
20 roles, with I.D.B. taking over those loans which appear  
21 to be a higher risk category and that would be barred  
22 to us for assorted reasons.

23 MR. GIBSON: You do not feel that the recent  
24 expansion of the last year has brought about competition?

25 MR. BRYDEN: That would not be my feeling;  
26 I do not know whether anyone else would have a different  
27 view. We have not been critical of their operation  
28 as far as competition with what we do is concerned.

29 COMMISSIONER BROWN: One company operating  
30 in Canada is probably specialized more than the others



provision.

COMMISSIONER GIBSON: On this question of

financing new businesses and small businesses, would  
you care to make any comments about the operation of

I.D.B.?

MR. McARTHUR: The activities of I.D.B.

are a matter of public record, and my impression is  
that their activities have been set up significantly  
in the past few years, judging from the amount of money  
they have been reported as advancing in the group. I  
would make the observation that it probably has been  
a useful thing, but whether it has been exploited to  
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COMMISSIONER BROWN: One company operating





1 in this financing of small and medium type businesses  
2 and I wonder if Mr. Falkner would care to comment on  
3 the activities there?

4 MR. FALKNER: I do not know whether it is  
5 fair to say that one company has done it to a greater  
6 extent than others. As a matter of industrial policy,  
7 our company has selected a private placement group  
8 for our corporate investments and our investment depart-  
9 ments are split in definite areas of operation and  
10 size of area. There is a department set up to specifically  
11 handle loans to small businesses.



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1 In the States this has proven quite successful. We  
2 are doing it in Canada and it is a slow and hard job,  
3 but I would say on balance we are satisfied with the  
4 progress.

5 COMMISSIONER BROWN: What ranges.

6 MR. FALNER: They would range from loans  
7 in the area of \$100,000 and possibly  $\$1\frac{1}{2}$  million. This  
8 is the area we are trying to cover. Of course, loans  
9 larger than those amounts are taken on as well.

10 COMMISSIONER BROWN: This is just debt  
11 capital?

12 MR. FALNER: Yes.

13 MR. BRYDEN: There is one additional point,  
14 Mr. Chairman, and that is, when we talk about our  
15 non-residential mortgage loans I don't know how many  
16 of them would be, in effect, loans to small business,  
17 but a large number of them would be the facilitating  
18 of the provision of buildings and so on for purposes  
19 of small business, but I don't know how you get at the  
20 actual amount that is included within those loans,  
21 and that does include things like warehouse loans,  
22 factory loans, loans on shopping centres and so on,  
23 all of which provide premises, if you will, for small  
24 business.

25 COMMISSIONER GIBSON: In the same vein  
26 do you make a fairly conscious effort to produce  
27 a good regional distribution of assets? You have a  
28 rather interesting table here showing distribution of  
29 your assets, which is fairly even on the whole. Is  
30 this a result of just the way the market forces work,



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1 or as a result of a conscious effort to push funds  
2 out across the country?

3 MR. BRYDEN: I think, Mr. Chairman, it is  
4 a little bit of both. I think all of us are conscious  
5 of being national concerns and wanting to get as wide  
6 a geographical distribution as possible, and the table  
7 to which you refer is ---

8 COMMISSIONER GIBSON: It is on page 68;  
9 5.a.

10 MR. BRYDEN: Yes, and that we produced as  
11 an answer to some of the comments which have been made  
12 that on balance we seem to tend to pull savings away  
13 from some area of the country and invest them somewhere  
14 else, and we have had a bit of a problem in the initial  
15 instance in trying to develop that regional spread.  
16 Of course, mortgages can be easily spotted; your  
17 municipals and provincials; and then you have had to  
18 take your corporation list and attempt to break it up  
19 where the corporation operates in more than one province.  
20 You have probably had to use a population spread on  
21 your bonds, and so on, and that has produced this  
22 series under A of investment assets held by these  
23 companies in Canada. It comes out at the 7.8 million  
24 figure. Then we took our liabilities in Canada and  
25 went through rather a long process of apportioning  
26 them. The reserves were done differently as between  
27 ordinary insurance and group insurance and industrial  
28 insurance. The annuity reserves again fell under a  
29 different formula; our other liabilities to policy-  
30 holders, and so on, and we came up with this 6.9 billion



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1 liability to policyholders, and we have set out the  
2 ratio.

3 That, of course, will change from year to  
4 year as your business ages and as new business comes  
5 on the book and as investments are available.

6 We seem to be somewhat light in the Maritimes.  
7 On the other hand, it has been, it is our experience,  
8 extremely difficult over the last several years to get  
9 adequate availability of investments. All municipal  
10 bonds, and particularly Nova Scotia and New Brunswick,  
11 seem to be taken up locally. So, the availability of  
12 investment is a factor in this. However, I think it is  
13 quite significant -- the regional spread of the assets  
14 which have been achieved.

15 COMMISSIONER GIBSON: Do you charge pretty  
16 well standard -- I don't mean "charge": Do you take  
17 mortgages in pretty well the same rates across the  
18 country? In other words, there is not much regional  
19 difference in interest rates in the assets in which  
20 you deal?

21 MR. BRYDEN: I would think not.

22 COMMISSIONER GIBSON: For similar organizations.

23 MR. BRYDEN: I would think that is a fair  
24 comment.

25 COMMISSIONER GIBSON: So, to that extent  
26 the sort of national form of this industry is moving  
27 money around and not taking much account of one region  
28 being surplus or the other a deficiency in the determin-  
29 ation of rates. You mentioned earlier in the United  
30 States there were sizeable regional differences. Do you



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1 do anything specifically more than this in trying to  
2 obtain a regional balance? You provide these monies  
3 at roughly the same rates for the same purposes right  
4 across the country. Do you do any more than that -- I  
5 am not saying you should.

6 MR. LEMMON: We get pressures -- perhaps  
7 that is not the right word. We are encouraged by our  
8 agency force to invest money where we do the life  
9 insurance business, and we advertise we do a mortgage  
10 business where we do a life insurance business. We  
11 do attempt to purchase municipal securities in the  
12 area where we sell life insurance for the purpose of  
13 supporting our local agency forces in that area. I  
14 can only speak for our own company, but that is certainly  
15 a factor in our investment operations -- the attitude  
16 of the local agent and the support for the local agent.

17 COMMISSIONER BROWN: We gather the place  
18 factor does enter into this distribution in the question of  
19 municipals. In other words, if you could buy municipals  
20 at 6 per cent in one place and in the Maritimes at 5½,  
21 you don't buy them.

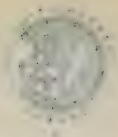
22 MR. LEMMON: We are not prepared, really,  
23 to sacrifice rate to aid this job.

24 COMMISSIONER BROWN: It is the price  
25 mechanism working.

26 MR. LEMMON: That is right. However, rate  
27 for the same quality of asset is pretty uniform across  
28 the country, so the question of municipals in the  
29 Maritimes is a bit especial.

30 COMMISSIONER LEMAN: Do you feel there should





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the country, so the question of municipals in the  
Maritime is a bit special.

COMMISSIONER LEMMAN: Do you feel there should



1 be such an effort? Is that theoretically sound?

2 MR. RIEDER: I think there is a natural  
3 force at work here. Capital attracts people to the  
4 section of the country where capital is being expended  
5 and, of course, the movement of people attracts life  
6 insurance sales; they just naturally go together.  
7 If a person is moving from the Maritimes to Ontario he  
8 brings his life insurance with him.

9 MR. LEMMON: It would certainly be simpler,  
10 particularly in periods of tight money, and cheaper to  
11 concentrate your investment operations in the most  
12 prolific and productive fields. However, there are  
13 other periods come about in this country whereby we  
14 are out beating the bushes for good investments, and  
15 in so doing we set up an organization, particularly  
16 in our mortgage organization, to lend money locally.  
17 In periods of tight money you don't cut off any of  
18 those local areas. It is not good business to cut them  
19 off. So, even from purely investment considerations,  
20 in periods when money is tight and investment opportunities  
21 are plentiful we make money available in all areas across  
22 Canada.

23 COMMISSIONER LEMAN: Yes, but I am thinking  
24 about the theory here. We talked yesterday about what  
25 the concept is of your client who buys an insurance  
26 policy. He is looking for protection.

27 MR. LEMMON: Yes.

28 COMMISSIONER LEMAN: And he wants to benefit  
29 from the fact you blanket the whole country in your  
30 investment policy, and therefore when people in one



MR. KIMBER: I think there is a natural force at work here. Capital attracts people to the section of the country where capital is being expended and, of course, the movement of people attracts life insurance sales; they just naturally go together. If a person is moving from the Maritimes to Ontario he brings his life insurance with him.

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1 province buy insurance from your industry they would  
2 not like to see those investments made in their province  
3 as security for their particular protection, would they?

4 MR. LEMMON: No.

5 MR. BRYDEN: They look to the entire pool  
6 of assets for their security.

7 COMMISSIONER LEMAN: Therefore, how do  
8 you reconcile that with this insistence that there  
9 must be a fair distribution of investment practically  
10 proportional to the amount of insurance in force?

11 MR. LEMMON: There is another factor at  
12 work there in your theoretical borrower -- the  
13 theoretical purchaser of life insurance who may be  
14 looking to us to do the best possible for his funds  
15 will turn around the next day and be a borrower and  
16 complain bitterly if any life insurance company is not  
17 making funds available in his community. So, for the  
18 sale of life insurance, which is our fundamental  
19 business, it does make a lot of sense to diversify your  
20 interest.

21 COMMISSIONER LEMAN: I was wondering whether  
22 you subscribe to the theory or whether this table  
23 5.a happens to be a very happy ---

24 MR. LEMMON: No, I think you have to bear  
25 in mind we are fundamentally life insurance companies,  
26 not investment trusts. The agency force continually  
27 reminds of that.

28 MR. BRYDEN: I think this is, though, a  
29 by-product of what has happened rather than a completely  
30 deliberate attempt, and a lot of it depends on the

provide any insurance from your industry they would not like to see those investments made in their province as security for their particular protection, would they?

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by-product of what has happened rather than a completely

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1 availability of investments, and, of course, say on  
2 the western coast in recent years there has been a high  
3 degree of availability of investment and at that point  
4 you find that total creeping up, but that will change  
5 from year to year -- not significantly, but as the  
6 increased flow comes along and investments are available  
7 in different areas.

8 COMMISSIONER BROWN: I wonder if we could  
9 turn briefly to another subject. I would like to start  
10 at paragraph 7.10. Reading between the lines there  
11 appear to be some criticisms here, and I would like  
12 to bring them out in the open if we can.

13 MR. BRYDEN: Mr. McCarthy, I think, is  
14 primarily responsible for the thinking about that area.

15 MR. MCCARTHY: The question of availability  
16 of new issues is what is discussed in this paragraph  
17 basically. Some of the companies -- and I emphasize  
18 "some" of the companies -- have from time to time  
19 complained that when new large attractive offerings  
20 in the public market come along that they do not seem  
21 to be able to get what they consider to be a reasonable share  
22 of these issues at the time of offering. I have seen  
23 in my own experience examples of a \$50 million issue  
24 of the Province of Ontario come to the market, and  
25 within 10 minutes be told that the supply has practically  
26 dried up. It is false logic to expect that in 10  
27 minutes that has happened. What we would like to see  
28 is a modification, if not an elimination, of the arrange-  
29 ment that has been in force for many years whereby the  
30 investment dealers in their syndicate arrangement have







1 arbitrarily set aside for institutional distribution  
2 certain percentages of new issues, and part of these  
3 rules, as I understand them, go so far as to indicate  
4 to the members of that syndicate that they as individual  
5 members are not to approach the investment institutions  
6 and offer them securities; this is to be handled by  
7 an account manager. These rules, in the opinion of  
8 some of the member companies, have inhibited or retarded  
9 our ability from time to time to get an amount of an issue  
10 we want to get on the market.

11 COMMISSIONER BROWN: Well, this brings  
12 up several questions. I am on the other end of this  
13 telephone. Do I gather from this, first of all, the  
14 implied suggestion that the insurance companies should  
15 get preferred treatment on attractive new issues?

16 MR. McCARTHY: That is not implied at all.

17 COMMISSIONER BROWN: I did not think it was,  
18 but I just wanted to make it clear you were not implying  
19 that, because this was an implication that was read into  
20 the paragraph -- that you felt you should get better  
21 treatment than the general public.

22 MR. McCARTHY: No, that is not the implication.  
23 The implication is that we get a reasonable opportunity.

24 COMMISSIONER BROWN: Is there another  
25 implication you are not entirely happy with the use  
26 of the exempt list?

27 MR. McCARTHY: This is not, I don't believe,  
28 a uniformly held view with the member companies. In  
29 fact, some of the member companies do prefer it. Others  
30 regard it as a hindrance in the fulfilling of their demands



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MR. McARTHUR: This is not, I don't believe,  
a uniformly held view with the member companies. In  
some cases it is a question of the size of the company





1 from time to time.

2 COMMISSIONER BROWN: The next point is,  
3 is there an implied criticism of the wide syndicate  
4 arrangements for handling provincial issues as against  
5 tenders?

6 MR. McCARTHY: On the negotiated basis?

7 COMMISSIONER BROWN: Yes.

8 MR. McCARTHY: No, sir.

9 COMMISSIONER BROWN: You are quite happy  
10 with it?

11 MR. McCARTHY: I don't know the association  
12 has any sort of fixed uniform view on the matter. It  
13 has always struck me and our company as a pretty  
14 reasonable way of handling the problem of a continuing  
15 borrower such as a large province.



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1 COMMISSIONER BROWN: Have any others any comments  
2 on that?

3 MR. HOLMES: I am not in the actual trade  
4 but I have always had the feeling that when an issue  
5 came out and we wanted a large section of it and had  
6 to go out on the market to buy from speculators I  
7 have rather resented it, yes.

8 COMMISSIONER BROWN: This brings up the other  
9 question, the problem of riding the market. Is it  
10 the dealers who are riding?

11 MR. HOLMES: I do not know who is riding  
12 it. All I know is the ones who want the money to hold  
13 for some reasonable purpose -- not that we hold it  
14 particularly because we will sell it again --

15 COMMISSIONER BROWN: Because you will make  
16 a profit?

17 MR. HOLMES: No, not because of the profit  
18 but to buy something better. The point is when an  
19 attractive issue comes out the big investors seem to  
20 get cut down and other people get in there from whom  
21 you have to buy at a somewhat higher price.

22 COMMISSIONER BROWN: The complaint of the  
23 legitimate buyer is that on an attractive issue he  
24 can never get anything at all. In the same paragraph  
25 you mention prompt and full distribution. Is this  
26 tied up with the same thing?

27 MR. MCCARTHY: Well, in the minds of some  
28 of the members it is. We believe short payment  
29 periods would perhaps eliminate what some of us feel  
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MR. HOLLERS: I do not know who is riding it. All I know is the ones who want the money to hold for some reasonable purpose -- not that we hold it particularly because we will sell it again --

COMMISSIONER BROWN: Because you will make a profit?

MR. HOLLERS: No, not because of the profit but to buy something better. The point is when an attractive issue comes out the big investors seem to get out down and other people get in there from whom you have to buy at a somewhat higher price.

COMMISSIONER BROWN: The complaint of the legitimate buyer is that on an attractive issue he can never get anything at all. In the same paragraph you mention prompt and full distribution. Is this tied up with the same thing?

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1 is a tendency from time to time to speculation in the  
2 new issue market and that more proper and permanent  
3 distribution would be perhaps assured with a shorter  
4 payment period. There are occasions when this just  
5 would not be appropriate: in fact I can think of  
6 occasions when an institutional buyer himself might  
7 control the long payment period. It is an involved  
8 question.

9 COMMISSIONER BROWN: What would you regard  
10 as a suitable delivery payment period -- three weeks?

11 MR. McCARTHY: That would seem reasonable  
12 to me.

13 MR. BRYDEN: Is this not true in that also,  
14 that there is a certain time element that must elapse  
15 before the investment dealers themselves can obtain  
16 the certificates, etcetera, for the actual delivery.  
17 There is a purely mechanical problem.

18 COMMISSIONER BROWN: Yes, it is a purely  
19 mechanical problem that sometimes can be overcome.

20 MR. BRYDEN: But I think in the circumstances  
21 that it is within reason that the closer the delivery  
22 date to the offering date the better rather than letting  
23 it stand out for some time because I think the very length  
24 of time it stands out may tend to promote the sort of  
25 speculation, free riding et cetera that I am told goes  
26 on.

27 COMMISSIONER BROWN: Have you any particular  
28 comment to make on delivery payment?

29 MR. McCARTHY: I have no particular comment  
30 to make, no.



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new issue market and that more proper and permanent  
distribution would be perhaps assured with a shorter  
payment period. There are occasions when this just  
would not be appropriate: in fact I can think of  
occasions when an institutional buyer himself might  
control the issue payment period. It is an involved

COMMISSIONER BROWN: What would you regard  
as a suitable delivery payment period -- three weeks?  
MR. MCCARTHY: That would seem reasonable

to me.

MR. BRYDEN: Is this not true in that also,  
that there is a certain time element that must elapse  
before the investment dealer themselves can obtain  
the cash? There is a purely mechanical problem.

COMMISSIONER BROWN: Yes, it is a purely

mechanical problem that sometimes can be overcome.

MR. BRYDEN: And I believe in the circumstances  
that it is within reason that the closer the delivery  
date to the offering date the better rather than leading  
it around out for some time because I think the very length  
of time it stands out may tend to promote the sort of  
speculation, free riding or cetera that I am told goes

comment to make on delivery payment?

MR. MCCARTHY: I have no particular comment





1 MR. BRYDEN: Well, it helps.

2 COMMISSIONER LEMAN: If there is not proper  
3 distribution what about the problem of wide distribution?  
4 Yesterday I got the impression that on an important  
5 issue of the right term that the insurance companies  
6 like that bond is pretty well stashed away until  
7 maturity or close to maturity until they become really  
8 short term bonds. If a syndicate felt that they wanted  
9 for the borrower really wide distribution how much  
10 could they let the insurance companies take of the  
11 first issue?

12 MR. BRYDEN: If that is one of the basic  
13 reasons behind the borrower's idea in the financing  
14 well, then obviously it seems to me you have to do  
15 something to hold down the institutional participation.  
16 We do not have to like it, but nevertheless it could  
17 be done.

18 COMMISSIONER LEMAN: Well, then would the  
19 market on it tend to make a market for you which you  
20 would not otherwise have? If your proportion of the  
21 issue was too large, the market would be pretty well  
22 restricted to yourself, would it not?

23 MR. BRYDEN: That is right, but it is this  
24 very thing, I think, in some cases that is tending  
25 towards what Mr. Falkner has described as private  
26 placement and that has been particularly true in the  
27 United States.

28 MR. FALKNER: Yes.

29 MR. BRYDEN: The amount of corporate issues  
30 held by institutions that have been acquired through

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COMMISSIONER LEWIS: It seems as if proper distribution was about the problem of wide distribution. Yesterday I got the impression that on an important issue of the right term that the insurance companies line that bond is pretty well absorbed away until maturity or close to maturity until they become really short term bonds. If a syndicate felt that they wanted for the borrower really wide distribution how much could they let the insurance companies take of the

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MR. BRYDEN: That is right, but it is this very thing, I think, in some cases that is tending towards what Mr. Falkner has described as private placement and what has been particularly true in the

MR. BRYDEN: The amount of corporate issues held by institutions that have been acquired through



1 direct placement as against through the normal type  
2 open market is very significant.

3 COMMISSIONER BROWN: There are a lot of legal  
4 problems through the S.E.C. registration.

5 MR. BRYDEN: Yes, the S.E.C., I think, tends  
6 to promote direct placement too.

7 MR. LEMMON: Which is a situation  
8 which does not exist in Canada.

9 COMMISSIONER BROWN: That is right, it has  
10 not gone to the same extent in Canada at all.

11 COMMISSIONER LEMAN: I was wondering why  
12 we talk about these important issues and less important  
13 issues. Is there an implication there that the syndicate  
14 manager in having an issue has created that sort of  
15 atmosphere you are talking about because he has not  
16 priced it properly?

17 MR. BRYDEN: A good issue can be offered  
18 at  
19 you/one price, at an interesting price, and when you  
20 get it in it may be at another price not too interesting.  
It is a matter of pricing in the market.

21 COMMISSIONER LEMAN: When they create this  
22 exempt list and decide how much the institutional  
23 participation is going to be and reserve that for the  
24 syndicate manager, what is in the mind of the syndicate  
25 manager then? Does he know that he has priced that  
26 issue too low?

27 MR. LEMMON: Not necessarily. It may be  
28 on a rising market which may create a less attractive  
29 price.  
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1 COMMISSIONER LEMAN: Well, what would make  
2 your issue too low or too high?

3 MR. BRYDEN: I think you are going to have  
4 to ask the investment dealers what is in their minds  
5 when they do these things. All we can register at  
6 this point is that at times the existing arrangements  
7 do not make us too happy. Maybe we cannot be any  
8 happier than we are, I do not know.

9 COMMISSIONER LEMAN: I thought you meant  
10 at the same price. Are you saying that the syndicate  
11 having made a mistake in price we are sorry we did  
12 not get enough for it -- is that the size of it?

13 MR. BRYDEN: We should like to think so  
14 and if they underprice it we might be quite sorry they  
15 did not keep enough for us.

16 COMMISSIONER MACKINTOSH: Is not the syndicate  
17 manager likely to do what you just explained the life  
18 insurance companies like to do, to keep all your  
19 outlets busy and even if he could sell all the issue  
20 to one small group he does not want to?

21 MR. LEMMON: Quite right.

22 MR. BRYDEN: Yes, he has got a selling  
23 organization too.

24 MR. HOLMES: It just seems a little funny  
25 he has so many good customers when he has underpriced  
26 the issue.

27 COMMISSIONER LEMAN: Well, as a matter of  
28 fact, under the law an investment dealer is entitled  
29 to talk to some institutions about a prospective issue  
30 somewhat?

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1 MR. BRYDEN: Oh, it is normal to in a  
2 number of cases.

3 COMMISSIONER LEMAN: That is right and that  
4 gives him a little chance to explore the receptivity  
5 of the institutions?

6 MR. BRYDEN: He is doing his homework on  
7 the price.

8 COMMISSIONER LEMAN: That is right.

9 MR. BRYDEN: But sometimes, as Mr. Lemmon  
10 says, between the time he establishes price there  
11 has been a time lag and the market may move. While  
12 you may have had it perfectly well placed in the be-  
13 ginning when the market moves and it does go it looks  
14 like a bargain.

15 COMMISSIONER BROWN: In the same paragraph  
16 you refer to earlier information. Is this a suggestion  
17 for a development of the counterpart of American  
18 inspection?

19 MR. MCCARTHY: We merely make the observation  
20 that the operation of the capital market would probably  
21 be facilitated if lenders had a better outlook on new  
22 investments. We have not any blueprint as to how  
23 this might be done other than perhaps the dealer  
24 organization itself would work at the development of  
25 a calendar or a schedule of the more important borrowings  
26 ahead. This is not done in Canada to any extent at all.

27 COMMISSIONER BROWN: This has come up in  
28 several issues.

29 MR. BRYDEN: I have the impression, Mr.  
30



MR. BRYDEN: Or, it is normal to in a

number of cases.

COMMISSIONER LEMAN: That is right and that

gives him a little chance to explore the receptivity

of the institutions?

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MR. BRYDEN: I have the impression, Mr.



1 Chairman, that quite often prospectuses of a new issue  
2 really appear just about at the point at which you  
3 are asked to make up your minds whether you want to  
4 buy and I think it is our feeling that if that information  
5 were available a few days or a week ahead that the whole  
6 affair could be facilitated.

7 COMMISSIONER BROWN: Something along the  
8 lines of the United Kingdom system?

9 MR. BRYDEN: I do not know the United Kingdom  
10 system but I believe that is it. There are times,  
11 frankly, when you have already said you would buy a  
12 certain bond and you get the prospectus the next day.  
13 Of course, you are buying it from your own information  
14 and analysis at that point.

15 COMMISSIONER BROWN: Have you any comments  
16 to make about the handling of new Canada issues?

17 MR. BRYDEN: I do not think we have any  
18 particular comment at all on that. I do not know if  
19 anyone else has. Mr. Rapsey?

20 MR. RAPSEY: I do not think we have any  
21 comment on that, no.

22 COMMISSIONER BROWN: Have you any comments  
23 on security regulation generally? It has been suggested  
24 in various places that we might look at the possibility  
25 of developing an S.E.C. type of operation in Canada.

26 MR. BRYDEN: Well, Mr. McCarthy, I think  
27 you had some thoughts on that and possibly Mr. Falkner;  
28 he is familiar with the S.E.C. in the States.

29 MR. MCCARTHY: As you observed we have no  
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MR. BRYDEN: I am not familiar with the S.E.C. in the States.  
You had some thoughts on that and possibly Mr. Folmer;

MR. MCCARTHY: As you observed we have no



1 particular formula to set before you for consideration  
2 on these matters. I think we would prefer to see the  
3 participants in the capital market gradually evolve  
4 useful forms of doing business rather than laying  
5 down legislation. Laying the groundwork, rather than  
6 doing it through legislation.

7 MR. BRYDEN: I think our general view would  
8 be that an operation like the S.E.C. in Canada is  
9 really not needed and we think that a gradual evolution  
10 of our present securities laws would be preferable to  
11 the introduction of the blanket S.E.C. type security  
12 regulation.

13 THE CHAIRMAN: Well, at the present time  
14 there is not much in the way of regulation of the sort  
15 of issues that you would be interested in, is there?

16 MR. BRYDEN: Not too much, no.

17 THE CHAIRMAN: That is pretty well left  
18 to the investment dealers and unless they get into  
19 some trouble they are not interfered with as I under-  
20 stand it.

21 MR. LEMMON: That is pretty generally true.

22 COMMISSIONER BROWN: There is one point involved  
23 in releasing preliminary prospectuses on which there appeared  
24 to be some new thoughts. Would you like to see some  
25 changes in that direction?

26 MR. BRYDEN: I think we would like to have  
27 some preliminary prospectus before the time we are  
28 approached by an issue.

29 COMMISSIONER BROWN: On the question of trading  
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COMMISSIONER BROWN: There is one point involving  
the following preliminary proposals on which there appeared  
to be some new thoughts. Would you like to see some  
changes in that direction?

MR. BRYDEN: I think we would like to have  
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approached by an issuer.

COMMISSIONER BROWN: On the question of handling





1 there appears to be a tremendous variety within the  
2 industry and in your paragraph 5.19 to 5.21 -- particularly  
3 in paragraph 5.20 there is a rather peculiar sentence,  
4 the first sentence in the paragraph:

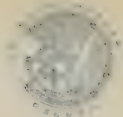
5 "It is clear that this experience  
6 varies widely between companies, due  
7 to factors of policy, practice and  
8 personnel."

9 That "personnel" is fairly clear --

10 MR. BRYDEN: Mr. Rapsey, I think you were  
11 going to talk about our trading operation.

12 MR. RAPSEY: Yes. Well, it is true that  
13 the experience varies very widely between companies  
14 and I think this description that states about the  
15 policy, practice and personnel is quite true.

16 Dealing with them in order I think individual  
17 company policies have something to do with it. If  
18 a company is predominantly a mortgage investor and that  
19 has been their basic investment philosophy and policy  
20 then they are perhaps less likely to be active securities  
21 traders. I think investment practice has something  
22 to do with it. This hinges on policy to some degree  
23 too, but I think it perhaps varies as between the  
24 organization of the investment function within a  
25 company, how much freedom is given to the actual per-  
26 sonnel in the investment department, how closely the  
27 investment committee of the board may wish to control  
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29 there are going to be some delays if it is a question  
30 of getting approval before you do things or whether it



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That "personnel" is fairly clear --

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Dealing with them in order I think individual company policies have something to do with it. If a company is predominantly a mortgage investor and that has been their basic investment philosophy and policy then they are perhaps less likely to be active securities traders. I think investment practice has something to do with it. This hinges on policy to some degree too, but I think it perhaps varies as between the organization of the investment function within a company, how much freedom is given to the actual personnel in the investment department, how closely the investment committee of the board may wish to control the investment operations of their company and obviously there are going to be some delays if it is a question of getting approval before you do things or whether it



1 is a question of reporting after you have done them.

2 By the same token, personnel makes a difference.

3 You may have a person in your investment department who  
4 is a very successful and active trader -- he just thinks  
5 that way and in these cases those companies are going  
6 to trade more actively than others.

7 COMMISSIONER BROWN: Do I gather in paragraph  
8 7.33 that the companies that do trade actively in Canada  
9 do so more actively than the American companies?

10 MR. RAPSEY: Which paragraph is this?

11 COMMISSIONER BROWN: I think 7.33.

12 MR. RAPSEY: Well, this deals with  
13 direct placement.

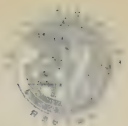
14 COMMISSIONER BROWN: The last sentence.

15 MR. RAPSEY: I think this again goes into  
16 the question of practice. If a company is one that  
17 has a very fully developed placement section in their  
18 organization, I think they are going to be giving less  
19 attention to trading than they otherwise might because  
20 their investment personnel is more occupied on developing  
21 the placement type of investment.

22 COMMISSIONER BROWN: Usually it is the other  
23 way around, that direct placement has not reached that  
24 proportion in Canada that it has in the United States  
25 and that therefore Canadians are inclined to trade more  
26 actively than Americans.

27 MR. RAPSEY: I think it is true that we do  
28 not have as much direct placement in Canada as they do  
29 in the United States. I see what you mean -- the reason  
30 being we do not have a direct placement -- I am inclined





Toronto, Ontario

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do so more actively than the American companies?

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way around, that direct placement has not reached that proportion in Canada that it has in the United States and that therefore Canadians are inclined to trade more actively than Americans.

MR. RABSEY: I think it is true that we do

not have as much direct placement in Canada as they do in the United States. I am not sure -- the major factor as to not have a direct placement -- I am inclined



1 to say it is the other way around. I think it is a case  
2 of the egg and the chicken, it works both ways.

3 COMMISSIONER BROWN: Would there be some  
4 cases where the Manufacturers, for instance, do not get  
5 as much as others?

6 MR. FALKNER: We do not trade at all.

7 MR. BRYDEN: And yet I presume they are  
8 the largest factor in the direct placement system?

9 MR. FALKNER: Possibly.

10 MR. BRYDEN: I think you would say that a  
11 company which tends to run its mortgage portfolio up  
12 to, say, 60 per cent is generally lukewarm on the  
13 question of securities so that each company follows  
14 its own philosophy on this.

15 For our part we feel we are reasonably  
16 active in the trading field. There are constant  
17 changes going through where we are selling one security  
18 and buying another in its place. We may not be nearly  
19 as active as the Manufacturers.

20 Mr. Poyntz, how about Imperial?

21 MR. POYNTZ: We are quite active in trading  
22 and I think the reason we are is that we have developed  
23 the personnel who are building it up and it has been  
24 possible to have confidence in them and give them a  
25 range of activity within which they can operate without  
26 prior consent and they go ahead and do it. But if  
27 we had not those people we would not be able to do it,  
28 of course.

29 MR. RIEDER: We might be one of the extremes  
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1 on the other end of the totem pole. We are large mortgage  
2 investors, we are not in the United States bond market  
3 where trading is easier to do than it is in Canada  
4 and we probably have more close control over our actual  
5 investment operators than most companies.

6 COMMISSIONER BROWN: Would the size of the  
7 market and accounting problem be tied up in this?

8 MR. RAPSEY: I think size plays a part.  
9 Obviously if you are trading in, say, denominations  
10 of \$10,000 or something like that it is not a very  
11 profitable operation for the time you spend on it  
12 and you like to trade in reasonable volume where we  
13 can differentiate between our markets obviously because  
14 in the United States where there is a very active,  
15 very diverse securities market we can trade very much  
16 more actively. In Great Britain where they have a  
17 wide selection of government securities in large volume  
18 you can trade very actively in British government  
19 securities but I think under the 2 per cent stamp duty  
20 over there, which does not apply on government but  
21 applies on corporation securities, this inhibits the  
22 trading in that field. In Canada it varies a bit. We  
23 can trade in Canada on the provinces, Ontario Hydros  
24 and even to a degree incorporate bonds where sinking  
25 funds are operating and that sort of thing.

26 THE CHAIRMAN: We will now adjourn for  
27 fifteen minutes.

28 (At this point a short recess was taken.)  
29  
30



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(At this point a short recess was taken.)



1 --- After Recess

2 THE CHAIRMAN: The meeting will resume.

3 COMMISSIONER MACKINTOSH: Mr. Chairman,  
4 I have a few questions I should like to ask in respect  
5 to Section 6 of the submission at page 89.

6 I notice the setting out of the objectives  
7 of economic policy and the comments made elsewhere in  
8 the brief which suggest that the industry attaches  
9 particular importance to the maintenance of reasonable  
10 price stability. How far do you think this is likely  
11 to be usually compatible with the other objectives  
12 that you set up?

13 MR. BRYDEN: Well, Dr. Mackintosh, it always  
14 seems to me that any country should have a series of  
15 objectives just as any business should. Now, it may  
16 be that at various times in the actual practice of  
17 management of the economy you will find that you seem  
18 to be incompatible in some respect or another but,  
19 alternatively, I do not think that undermines the  
20 objectives. I think you must still have the objectives  
21 and you should try in your fiscal and other management  
22 to pursue your way toward both objectives. I think  
23 that the maintenance of a high level of employment  
24 and income is one of the major objectives that we should  
25 have, and also the maintenance of reasonable price  
26 stability. It seems to me that those are the two,  
27 and the rest sort of flow from those. I do not think  
28 we should attempt to have one without the other because  
29 each time we do it produces a whole series of imbalances  
30 in the general harmonious objectives and the growth



--- After Remarks

THE CHAIRMAN: The meeting will resume.

I have a few questions I should like to ask in respect to Section 5 of the submission at page 89.

I notice the setting out of the objectives of economic policy and the comments made elsewhere in the brief which suggest that the industry attaches particular importance to the maintenance of reasonable price stability. How far do you think this is likely to be usually compatible with the other objectives that you set up?

seems to me that any country should have a series of objectives that as any business should. Now, it may be that at various times in the actual practice of management of the economy you will find that you seem to be incompatible in some respect or another but, alternatively, I do not think that undermines the objectives. I think you must still have the objectives and you should try in your fiscal and other management to pursue your way toward both objectives. I think that the maintenance of a high level of employment and income is one of the major objectives that we should have, and also the maintenance of reasonable price stability. It seems to me that those are the two and the rest sort of flow from those. I do not think we should attempt to have one without the other because each time we do it produces a whole series of imbalances in the general harmonious objectives and the growth



1 of the economy.

is important

2 Price stability / of course, as far as the  
3 life insurance companies are concerned, bearing in  
4 mind that we speak on behalf of the fixed dollar  
5 and savers / it is true I think that every period of inflation  
6 can be most harmful in wiping out past capital values  
7 as unemployment can in the initial instance. I think  
8 you have to try to steer a course that recognizes both  
9 of these objectives, although your steering of the course  
10 is not going to be completely perfect all the time.  
11 I think that once you see an imbalance coming you have  
12 to try and do something about it to get yourself veered  
13 back on your course.

14 COMMISSIONER MACKINTOSH: More recently there wa  
15 the tendency to elevate your third objective, namely  
16 the promotion of a sustained and sustainable rate of  
17 growth, pretty much to a level with the first two.  
18 A few years ago that probably would not have been the  
19 case.

20 MR. BRYDEN: I would have thought that  
21 the third one, the promotion of a sustained and sustain-  
22 able rate of growth within the economy, really flows  
23 from the first two.

24 COMMISSIONER MACKINTOSH: Yes. You could  
25 argue that it is difficult to attain any of the three  
26 without some measure of success with the others.

27 In the matter of responsibility for monetary  
28 policy, you say that the Bank of Canada should be  
29 independent in the sense that it can pursue objectives,  
30 but that in the case of any division of opinion the

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without some measure of success with the others.

In the matter of responsibility for monetary

policy, you say that the Bank of Canada should be





1 government views must be paramount. Do you find anything  
2 in the statement which the Governor made following  
3 his appointment and the subsequent statement by the  
4 Minister of Finance which would differ from your views  
5 as to the probable relationship here? You are apparently  
6 familiar with that topic?

7 MR. BRYDEN: I thought, Dr. Mackintosh,  
8 that when we wrote this piece about the responsibility  
9 for monetary policy it was on all fours with Mr.  
10 Rasminsky's statement and the subsequent endorsement  
11 by the Minister of Finance.

12 COMMISSIONER MACKINTOSH: Well, that is  
13 what I expected to be confirmed. I am interested in  
14 what you have to say about a directive from the  
15 Government, or the Minister of Finance to the Governor.  
16 Do you look at this as a fairly formal act? A great  
17 many people say "directives". I am not very sure  
18 whether they mean a nod or a notarized document.

19 MR. BRYDEN: I would think that if the  
20 situation reaches the point where there is sufficient  
21 difference of opinion between the Government and the  
22 Governor to lead to a directive being issued, that  
23 should be at least in written form, not necessarily  
24 notarized. That is the point really, it seems to me,  
25 where if the Governor then cannot accept the implications  
26 of the directive because of the responsibilities he  
27 is carrying by the preamble of the Bank Act, then it  
28 seems to me that he must tender his resignation and,  
29 in so doing, I think he tenders it for reasons.  
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1 public debate.

2 COMMISSIONER MACKINTOSH: Now, that is the  
3 point I should like to clarify. Do you think of this  
4 directive as being a public directive or not public  
5 until the Governor has made up his mind to resign?

6 MR. BRYDEN: I had not thought about that  
7 particular point. I would think that it should be a  
8 directive from the Government to the Governor private  
9 in the first instance and then to the Governor himself  
10 to either follow the directive or to resign, at which  
11 point the thing becomes public. I think probably it  
12 is better kept private up to that time.

13 COMMISSIONER MACKINTOSH: Would you not think  
14 that the probable result of providing for this  
15 legislation would be that the power would never be  
16 used unless it was desired to prepare the way for the  
17 forced resignation of the Governor?

18 MR. BRYDEN: I would not think that this  
19 particular point would need to be spelled out in the  
20 legislation. It would seem that it is the basic  
21 operating procedure; an unwritten rule, if you wish.  
22 I think it would be very difficult to frame this in a  
23 statute to give effect to this kind of situation.

24 COMMISSIONER MACKINTOSH: You mean you would  
25 not provide any statute for the issuing and authority  
26 of a directive? I quite agree it would not spell out  
27 the mechanics.

28 MR. BRYDEN: Well, yes, I think that could  
29 be put in the statute in a pretty innocuous form, making  
30 the provision that the Minister may from time to time





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1 issue a directive having regard to this, or something  
2 of that kind. I think it could be handled without  
3 spelling it out in too much detail, but it is much  
4 better I think kept as a sort of unwritten rule.

5 COMMISSIONER LEMAN: Have you any idea  
6 what the form of such a directive might be? Obviously  
7 we are talking about a case here where in the opinion  
8 of the Government the Governor of the Bank has followed  
9 in his field of policy a course which does not quite  
10 fit the general policy of the Government. Do you  
11 imagine a specific type of conflict there, and therefore  
12 imagine also what the directive would be? What would  
13 it say to the Governor? Could it be so vague as to  
14 say, make money easier or make money tighter? What  
15 would it say?

16 MR. BRYDEN: I would think that under those  
17 circumstances if such a directive were to be issued the  
18 Minister of Finance would want to give reasons for his  
19 conclusions as to what monetary policy ought to be under  
20 the existing circumstances, because if the Governor does  
21 not agree to accept that then he is going to come forward  
22 with views as to what monetary policy ought to be in  
23 his view under the same set of circumstances. I would  
24 think that it would not be a vague directive. I would  
25 think the Minister of Finance should make a case within  
26 it for the direction that he would wish monetary policy  
27 to take.

28 COMMISSIONER LEMAN: Would it be still fairly  
29 precise, do you think?

30 MR. BRYDEN: I think if I were writing it



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28 COMMISSIONER LEMAN: Would it be still fairly

29 precise, do you think?

30 MR. LEMAN: I think if I were writing it





1 I would make it pretty precise.

2 COMMISSIONER LEMAN: In quantitative  
3 terms?

4 MR. BRYDEN: You mean, 2 per cent more  
5 money supplied or something like that?

6 COMMISSIONER LEMAN: Yes.

7 MR. BRYDEN: No, I do not think you would  
8 do it on that basis. I would think you would give  
9 the reasons why you think there ought to be, say, more  
10 money ease than apparently the Governor is prepared to  
11 let exist, and then he will come up with his points  
12 as to why he believes the current policy fits the  
13 current scene. Therefore in public discussion you  
14 then have both sides of the question.

15 COMMISSIONER LEMAN: The secretary just  
16 mentioned to me something I had not thought about. In  
17 Australia apparently such directives have to be tabled  
18 in parliament.

19 MR. BRYDEN: Just as soon as they are issued?

20 COMMISSIONER LEMAN: Yes.

21 THE SECRETARY: Within 15 days of the  
22 house sitting.

23 MR. BRYDEN: Well, I would assume that  
24 even under what I have suggested it is going to be  
25 tabled within about 15 days, because if through mutual  
26 discussion you have arrived at an impasse I do think  
27 the Governor's emerging views and his intent ought to  
28 be constantly before the Minister, and if it gets to  
29 the point where a directive is issued I am quite  
30 satisfied that the Governor is almost going to implement

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1 his side of the case immediately. Whether you want  
2 to force a tabling of it or not, I do not know.

3 COMMISSIONER GIBSON: You said earlier  
4 that you thought it would be desirable not to make it  
5 public until the Governor had a chance to consider  
6 whether or not he wanted to accept it.

7 MR. BRYDEN: That is right.

8 COMMISSIONER GIBSON: Of course, if he  
9 accepted it it would be highly undesirable to make it  
10 public at this point because then he would appear to  
11 be forced to do something which would lower his prestige.

12 MR. BRYDEN: Yes. I think the point at  
13 which it should be made public is at the point where  
14 the Governor cannot accept it. If he can then I do  
15 not see why such a directive ought to be public property  
16 at all, because presumably at that point the monetary  
17 policy of the government and the Bank are in unison.

18 COMMISSIONER LEMAN: Is it desirable for  
19 the Government to really give precise directives to  
20 the Governor which presumably are necessary because  
21 they cannot quite agree, and yet there is a private  
22 directive put on the Governor's desk and he accepts  
23 it and nobody knows that this has happened?

24 MR. BRYDEN: Well, you know when you get  
25 into this area of central banking and monetary policy  
26 I think so often there is so much said and so much  
27 misinterpretation, my view would be that it is better  
28 a directive of that kind, if it were ever issued, to be  
29 a private document until such time as the Governor  
30 decided that he could not accept it. I think if you





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decided that he would not accept it. I think if you



1 publish it prior to that you have really put the whole  
2 discussion out in public in any event and it may not  
3 be appropriate at that point for such divergences  
4 of view to come out in public.

5 COMMISSIONER MACKINTOSH: That probably  
6 means that the Government or Minister of Finance should  
7 not issue a directive until it has been determined  
8 that the Governor cannot accept it.

9 MR. BRYDEN: I think in all probability  
10 that is the way it would work in practice because they  
11 have reached an impasse, or else a directive is not  
12 forthcoming in any event. It is sort of the last step  
13 on the part of the Government and presumably the last  
14 step on the part of the Governor.

15 COMMISSIONER MACKINTOSH: We have had a number  
16 of suggestions from various sources as to improvements to  
17 the board of the Bank of Canada, vaguely stated and  
18 many of them, or at least not very precisely stated,  
19 including suggestions from more people with finance  
20 and/or banking experience, including the daring suggestion  
21 of putting a Communist on the board. I take it the  
22 present board is predominantly regional?

23 MR. BRYDEN: I believe that is the case.

24 COMMISSIONER MACKINTOSH: I take it, of  
25 course, the Act requires that, or does it?  
26  
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1 MR. BRYDEN: I am subject to correction,  
2 but I believe it requires people of diverse occupations;  
3 I am not sure that the Act itself requires regional  
4 representation. I think it started that way. I am  
5 subject to correction on that, but I believe that is  
6 the case.

7 COMMISSIONER MACKINTOSH: Has the industry  
8 any ideas as to a different pattern of directorships,  
9 and would this lead to a large number of people of  
10 financial competence and experience?

11 MR. BRYDEN: I don't believe, Dr. Mackintosh,  
12 that the industry as an industry has any views on that  
13 particular subject; it wasn't discussed in our meetings.  
14 I think, though, that from what we have said in the  
15 brief that the industry would probably agree that  
16 competence in finance and economics would be desired  
17 to a greater extent than geographical or even occupational  
18 representation, and that in that event the chartered  
19 bankers are excluded under the Act and investment  
20 dealers, although not excluded, I think would be very  
21 likely to exclude themselves on the basis of their  
22 own particular interest with the Bank of Canada and  
23 this certainly narrows the area of competence -- that  
24 is to be found in the matters of finance in any country,  
25 and I would think that that would lead to the suggestion  
26 that the board might be smaller than it is and based  
27 essentially on competence in economics and in financial  
28 matters. That is not an association view, I think that is  
29 probably a personal view drawn from the general position  
30 that we have taken.

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probably a personal view drawn from the general position

that we have taken.



1 COMMISSIONER LEMAN: Well, would you  
2 visualize, say, a full-time one?

3 MR. BRYDEN: That had not been in my mind,  
4 no. I would think that you might have a board of six  
5 or nine, or as many as you wish, but not a full-time  
6 board, no.

7 COMMISSIONER LEMAN: Where do we find those  
8 people where there is any conflict of interest which  
9 would arise?

10 MR. BRYDEN: You might find them in the  
11 life insurance companies! You might find them amongst  
12 economists and university professors, but it does  
13 create quite a problem once you have really excluded  
14 your chartered bankers, and also I think that the  
15 investment dealers would exclude themselves, so that  
16 the area becomes much smaller in which you can make  
17 ultimate choices. Again that is the prerogative  
18 of the Minister of Finance, whoever he may be.

19 COMMISSIONER LEMAN: If we could find them  
20 in the life insurance industry, would that cast a reflection  
21 on the responsiveness of life insurance companies to  
22 short-term monetary movement?

23 MR. BRYDEN: I would doubt it.

24 COMMISSIONER MACKINTOSH: Turning to another  
25 topic, we have had representations that the bank should  
26 cease to act as the government agent on debt management  
27 and that the Department of Finance would run the  
28 operations itself. There were others that felt that  
29 we might have a board of debt commissioners, or something,  
30 charged with this so that the Bank might carry out its



COMMISSIONER LEMAN: Well, would you

BRADEN: That had not been in my mind, no. I would think that you might have a board of six or nine, or as many as you wish, but not a full-time

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1 operations, but on a much more detailed direction  
2 from the Department. Have you any view on that?

3 MR. BRYDEN: That, too, is a subject,  
4 Dr. Mackintosh, that the association did not discuss.  
5 At the present time the Bank of Canada operates on an  
6 agency basis. I think you can develop a pretty clear  
7 case for having debt management operations come under,  
8 say, the Department of Finance, and alternatively you  
9 have the overriding proposition that a unification of  
10 monetary policy, fiscal policy, debt management policy,  
11 and so on, is essentially now in the throes of being  
12 under finance and you then have to develop a means  
13 of achieving that through necessary co-ordination, and  
14 I think that is the point that I don't think I am  
15 competent to have an opinion on.

16 COMMISSIONER MACKINTOSH: It is a little  
17 hard to see how, if you have two groups operating,  
18 you are not simply requiring they confer by telephone  
19 first before either of them takes any action.

20 MR. BRYDEN: On the other hand, with it  
21 centred, you have in the present instance one man  
22 wearing what, three hats; he wears the monetary policy  
23 hat, he wears the debt management hat as an agent and  
24 he also wears an exchange rate hat, again as an agent.  
25 Co-ordination is essential. How you achieve that  
26 co-ordination to the best effect I think would be  
27 the basic position as far as its eventual location  
28 is concerned.

29 COMMISSIONER MACKINTOSH: That is the problem,  
30 I think, almost in any business; the head of the business

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COMMISSIONER MACKINTOSH: That is the problem

I think, almost in any business; the head of the business





1 has a variety of headgear he has to put on.

2 COMMISSIONER GIBSON: Do any of your other  
3 members have personal views they would like to express?

4 MR. BRYDEN: I would be very happy if  
5 they would. Apparently not, which suggests that possibly  
6 they are agreeing with me.

7 COMMISSIONER BROWN: They regard you as  
8 the expert.

9 MR. BRYDEN: That is right.

10 COMMISSIONER MACKINTOSH: You mentioned  
11 the need for co-ordination and unifying policies.  
12 Would you feel that recent monetary history reflected  
13 basic conflicts between objectives or that the mix  
14 had been wrong?

15 MR. BRYDEN: I would think that probably  
16 what you would say is that the mix might have been  
17 somewhat different. Now, that is hindsight and it is  
18 so much better than foresight.

19 Again, it seems to me that your major  
20 aim is to keep your entire economy in a state of  
21 balance and if things seem to be getting out of line  
22 in any one area, some offsetting action, if possible,  
23 should be taken and it is kind of a constant walking  
24 on a tightrope -- if you will -- as between all these  
25 various facets of the economy and as in any business,  
26 if you let one thing get out of line, normally you  
27 take a wack at that and hit it on the head if you can  
28 to bring yourself back into that unified balance  
29 that seems so essential, and I think that recent  
30 history indicates that we are somewhat out of balance.



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so much better than foresight.

somewhat different. Now, that is hindsight and it is

what you would say is that the mix might have been

MR. BRYDEN: I would think that probably

had been wrong?

basic conflicts between objectives or that the mix

Would you feel that recent monetary history reflected

the need for co-ordination and unifying policies.

MR. BRYDEN: That is right.

they are agreeing with me.

MR. BRYDEN: I would be very happy if

members have personal views they would like to express?

COMMISSIONER GIBSON: Do any of your other



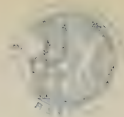
1                   There is also a question of timing involved  
2 here; there are times when you should do something  
3 and there are other times when you shouldn't, and that  
4 is part of this walking on the tightrope.

5                   COMMISSIONER MACKINTOSH: I am not sure  
6 that is a very helpful prescription; I accept the  
7 truth of it, though.

8                   COMMISSIONER LEMAN: It seems to me  
9 in the brief that you feel that in order to have  
10 the proper mix of policy you have to have a degree of  
11 responsiveness to the policies that are being pursued,  
12 and in paragraph 6.19 there is a direct reference to  
13 that; you talk about responsive elements of the  
14 economy and responsive financial intermediaries, and  
15 we have talked -- I don't want to go back into all  
16 the details, but we have talked about a good deal of  
17 the areas in which your particular industry might be  
18 deemed responsible or not. How would you judge that  
19 from the point of view of the two big areas of where  
20 you should have responsiveness; say that on the liability  
21 side there doesn't seem to be much responsiveness to  
22 short-term movements.

23                   MR. BRYDEN: I would think on the liability  
24 side that there is not a high degree of responsiveness;  
25 I think the liabilities, of course, are created by the  
26 sale of insurance and, as you said yesterday, we sort  
27 of keep constant pressure on these sales, and the  
28 economic conditions that the country help or hinder  
29 a bit and with continuing pressure for sales, but on  
30 balance the liabilities accrue from that type of operation





There is also a question of timing involved here; there are times when you should do something and there are other times when you shouldn't, and that is part of this walking on the tightrope.

COMMISSIONER MACKINTOSH: I am not sure that is a very helpful prescription; I accept the truth of it, though.

COMMISSIONER LEWIS: It seems to me

in the brief that you feel that in order to have the proper mix of policy you have to have a degree of responsiveness to the policies that are being pursued, and in paragraph 6.19 there is a direct reference to that; you talk about responsive elements of the economy and responsive financial intermediaries, and we have talked -- I don't want to go back into all the details, but we have talked about a good deal of the areas in which your particular industry might be deemed responsible or not. How would you judge that from the point of view of the two big areas of where you should have responsiveness; say that on the liability side there doesn't seem to be much responsiveness to short-term movements.

MR. LEWIS: I would think on the liability side that there is not a high degree of responsiveness; I think the liabilities, of course, are created by the sale of insurance and, as you said yesterday, we sort of keep constant pressure on these rates, and the economic conditions that the country help on higher a bit and with continuing pressure for sales, but on balance the liabilities seem from that type of operation



1 and on the basis you suggest it could be considered  
2 to be relatively unresponsive in the sense that you  
3 are using it.

4 COMMISSIONER LEMAN: And that was even true  
5 of loans to policyholders, which are a matter of  
6 contracts, too.

7 MR. BRYDEN: I don't quite get the  
8 connection on the loans to policyholders; that is also a  
9 contractual arrangement.

10 COMMISSIONER LEMAN: That is right.

11 MR. BRYDEN: It does seem from our operating  
12 experience that most policyholders are inclined to  
13 use their policy loan privileges as a sort of a loan  
14 of last resort, if you will.

15 COMMISSIONER LEMAN: And therefore would  
16 look  
17 you say we cannot/for much responsiveness there in  
18 that particular area either, except to the extent  
19 that you might get more demand for loans at a time of  
20 tight money?

21 MR. BRYDEN: I mean that is what you do  
22 under extreme conditions, and back in the 30's there  
23 was a time when at least 20 per cent of the assets  
24 of the companies were in policy loans.

25 COMMISSIONER LEMAN: But not rate-wise;  
26 you can't respond rate-wise in that area?

27 MR. BRYDEN: No.

28 COMMISSIONER LEMAN: So, we have to look  
29 on the asset side basically, investments, and this  
30 morning we talked about trade; the record of trade  
among the companies represented here was very uneven,



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was a time when at least 30 per cent of the assets

of the companies were in policy loans.

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MR. BRYDEN: No.

COMMISSIONER LEAHY: So, we have to look

on the asset side basically, investment, and this

morning we talked about under the terms of the





1 some were not very active traders and others were.

2 COMMISSIONER LEMAN: Could you summarize  
3 a bit in what way you feel the industry might be  
4 responsive on the asset side?

5 MR. BRYDEN: Well, it has been my impression  
6 that the industry as a whole was reasonably responsive  
7 to monetary policy; certainly as interest rates go  
8 up and/or go down it does start a chain of operation  
9 running back through our investment policy. Part of  
10 that, of course, will have to do with the new money  
11 which we invest and the other part comes from the  
12 total gross investments, if you will, which includes  
13 the amount of trading that is done. It finds itself  
14 in that area and it also finds itself expressed, I  
15 think, in the degree to which companies tend to have  
16 forward commitments, particularly in the mortgage  
17 market, but that also is true to some extent in  
18 securities and at some periods we may have our cash  
19 income, if you will, the net cash income committed  
20 ahead for six to nine months; at other points you  
21 would let these forward commitments run out.

22 On the whole, though, I would have thought  
23 and do think that the life insurance industry is  
24 reasonably responsive in the capital market to shifts  
25 in interest rates and in some degree to shifts in the  
26 economy.

27 COMMISSIONER LEMAN: We discussed your  
28 mortgage operation this morning, and it seems as though  
29 the rates and mortgages do not respond quickly, is  
30 that right?



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COMMISSIONER LEMAN: We discussed your

mortgage operation this morning, and it seems as though

the rates and mortgages do not respond quickly, as



1 MR. BRYDEN: They respond to -- they  
2 certainly respond to the general trend in interest  
3 rates, although there is a time lag and again part  
4 of that depends on the demand for mortgage money within  
5 that particular market, but we would find, I think,  
6 over long cycles of interest rates that you have mortgage  
7 rates that have run all the way from 7 per cent, such  
8 as might exist now, and I can remember/at which mortgage  
9 rates were  $4\frac{1}{2}$  per cent on good loans during a period  
10 of low interest rates.

11 Now, there is a lag. Part of that lag,  
12 I suspect, is due to the fact that it takes time  
13 to bring a mortgage investment into your actual  
14 operating position. I mean, first of all, there is  
15 the examination of the loan, then there is your commit-  
16 ment and then there may be six months lapse before  
17 your cash starts to go out as this is in the process  
18 of construction, and there is quite a time when the  
19 interest rates, of course, would be fixed at the point  
20 of the original approval, so that contributes in part  
21 to that lag, but the mortgage rate in Canada is not  
22 what you would call a particularly responsive rate.

23 On the other hand, if we can over the years  
24 develop a secondary mortgage market and a larger number  
25 of people participating in it, then that in itself  
26 will produce more responsiveness in what at the moment  
27 might be regarded as a rather sticky interest rate.

28 COMMISSIONER LEMAN: A system of discounting  
29 mortgages?

30 MR. BRYDEN: Yes.





Mr. Bryden: That is correct, yes.

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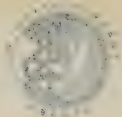
1 COMMISSIONER LEMAN: Well, the NHA mortgage  
2 rates, they have been rather sticky and they do have  
3 an influence on the conventional mortgage market  
4 to a large extent?

5 MR. BRYDEN: That is right.

6 COMMISSIONER LEMAN: And therefore we don't  
7 very high responsiveness in that area either.

8 MR. BRYDEN: Mind you, one of the things  
9 that you have to have in a responsive mortgage market  
10 is some sort of uniformity in the piece of paper.  
11 A conventional mortgage is a mortgage on a particular  
12 piece of property in a particular place and to a particular  
13 person. Now, the liquidity of such an instrument  
14 is pretty small, because anybody who would wish to  
15 take it over would really have to go and look at the  
16 property and assess the credit worthiness of it, and  
17 so on, and once you move into this N.H.A. insured mortgage  
18 position you are creating a fairly high degree of  
19 uniformity by that insured position. This is essential.  
20 That sort of a thing would be essential before you  
21 could really move into a place where your mortgage  
22 documents are to some extent liquid.

23 Now, if you could move further to the  
24 point where no matter what the interest rate may be,  
25 if they are in the sort of a package that can be bought  
26 either below par or above par, then you can get gradations  
27 in that interest rate between that which is normally  
28 imposed of, say, one-quarter or on-half per cent, and  
29 then you develop in that way to a more flexible, more  
30 responsive interest rate in that field.



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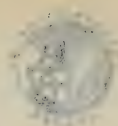


1 Do you wish to say anything about that,  
2 Mr. Lemmon?

3 MR. LEMMON: Just one small extension on  
4 that. It is inevitable, perhaps, in all of these  
5 discussions that we compare ourselves with the larger  
6 country south of the border which has gone through  
7 some of these problems before.

8 The F.H.A. document in the United States  
9 is a much more marketable document and is much better  
10 than the N.H.A. document in Canada. Why should that be?  
11 One main reason is that the National Housing Act prevents  
12 loans being made below the face amount of the loan;  
13 it can't be made at a discount.

14 In the United States the F.H.A. loans are  
15 made at discounts and the discount charges are as  
16 quoted; you can get an average price at which F.H.A.  
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18 United States and that, in my opinion, tends to make  
19 interest rates on mortgages in the United States more  
20 quickly responsive to movements in the bond market  
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1 MR. RIEDER: On this whole question of  
2 responsiveness, Mr. Chairman, we are fairly responsive  
3 to shifts in interest rates within different categories  
4 of investments, but, by and large, an insurance company  
5 remains fully invested all the time, and the money that  
6 emerges is invested. Our cash balances don't vary  
7 a great deal. So, in that sense you might say we are  
8 not too responsive.

9 COMMISSIONER LEMAN: I want to get at this  
10 a little further on in this discussion, but there is  
11 the matter of controls otherwise than through these  
12 basic financial policies. The fact that N.H.A.  
13 mortgages have been used to a large extent to encourage  
14 new construction and the fact they have been sticky,  
15 could we consider they did not tend to make that  
16 particular industry responsive -- as responsive as it  
17 could have been to monetary policy?

18 MR. LEMMON: I think that is a fair conclusion.

19 COMMISSIONER LEMAN: There seems to have  
20 been a government policy of longer range to try to  
21 help the residential construction industry in Canada  
22 a little bit regardless of what was going on from year  
23 to year in the needs of monetary policy.

24 MR. BRYDEN: I would say so. It seems to  
25 me that the degree of housing activity within the  
26 country at any time is a very important part of the  
27 total of capital invested, and I think the use of  
28 the N.H.A. has been part of what has been done in order  
29 to stimulate the building of houses for purposes of  
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On this whole question of responsiveness, Mr. Chairman, we are fairly responsive to shifts in interest rates within different categories of investments, but, by and large, an insurance company remains fully invested all the time, and the money that emerges is invested. Our cash balances don't vary a great deal. So, in that sense you might say we are not too responsive.

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1 ment, as much as anything else.

2 COMMISSIONER LEMAN: There have been changes  
3 of rates on N.H.A. mortgages.

4 MR. BRYDEN: Yes.

5 COMMISSIONER LEMAN: The record of changes --  
6 does it seem to have been co-ordinated with monetary  
7 policy?

8 MR. LEMMON: With considerable lag -- varying  
9 lags; but, considerable lag.

10 MR. POYNTZ: An evidence of responsiveness  
11 in the face of a fixed rate is the participation of the  
12 lender. They respond by not participating or participating  
13 to a greater degree.

14 MR. BRYDEN: And that really reflects where  
15 the conventional loan rate may be in terms of the N.H.A.  
16 rate. There would be times when conventional loans  
17 would be more attractive. There would be other times  
18 when the N.H.A. loans would be relatively more attractive.

19 COMMISSIONER LEMAN: Again in this field  
20 of responsiveness I get the impression from your  
21 arguments here that you feel that to the extent your  
22 industry is responsive it is mostly to long-term  
23 interest rates. Generally speaking, monetary policy  
24 begins to act at the short end, doesn't it? How do  
25 you visualize this mechanism? How do you think you  
26 can -- with how much lag would you be responsive if you  
27 are responsive to the long type of rates rather than  
28 the short?

29 MR. BRYDEN: Well, I suppose we would be  
30 as responsive as the degree of lag between short-term



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1 rates and long-term rates: That just sort of normally  
2 happens. We would in the first instance vary our  
3 committed position. In the second instance we can  
4 acquire larger amounts of either cash or short-term  
5 securities. Other than that we proceed to operate  
6 within the long-term end of the business and then  
7 different rates for different categories of assets  
8 tend to vary with each other, and you sort of, I suspect,  
9 would consider you would go up the scale as the rates  
10 widen. I think they would first appear in, say, your  
11 federal government debt. You would have your provincial  
12 bonds starting to reflect that pretty normally. You  
13 then have a downward movement of your municipals and  
14 corporations. There is a lag in all of those, but  
15 I think it is part of our operation within that market,  
16 even trading from one to another, that tends to pull  
17 the other type of interest rates in line with the basic  
18 long-term rate that exists from time to time as a result  
19 of monetary policy.

20 COMMISSIONER LEMAN: Yes, but with your  
21 experience as to what this lag is, we have heard from  
22 others a great deal about the value of signals -- the  
23 monetary policy operating as a signal. They operate  
24 first at the very short-term end. Do you observe these  
25 signals as something you can predict will influence  
26 your operations nine months or twelve months later?

27 MR. LEMMON: It did not take any nine or  
28 twelve months this spring. It took about nine or twelve  
29 days.

30 COMMISSIONER LEMAN: But you just talked



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6 of where the range on the long-term market came after  
7 a change on the short-term. It has not always been  
8 that fast. Sometimes it was six months, and sometimes  
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13 own judgment in the circumstances you are facing at a  
14 given moment that these signals coming at the very  
15 short end will produce this effect quickly, more slowly  
16 or not at all in the long-term field. You would make  
17 that judgment yourself?

18 MR. LEMMON: Collectively the market  
19 would make that judgment.

20 COMMISSIONER LEMAN: How about your industry  
21 in particular? Do you think you would have a particular  
22 judgment based on the type of the sectors of the  
23 economy with which you deal -- the insurance field and  
24 the kind of investments you make?

25 MR. BRYDEN: I would think most of the  
26 investment officers of the life companies are fairly  
27 knowledgeable in the field of interest rates, and I  
28 think all of us are attempting to work with the same  
29 or virtually the same basic figures that your central  
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1 conscious of a change or the prospects of a change  
2 in the interest rate level. I don't think, for what  
3 it is worth, that where the central bank gives a  
4 signal as such really has an awful lot of weight.  
5 The signal only comes after a certain situation has  
6 developed. We, I think, are watching the basic  
7 situation and to some extent may even anticipate such  
8 a signal in determining what we think the trend of  
9 interest rates is likely to be, and having made a  
10 determination on that we then move to the extent we  
11 can to capitalize on the expected trend.

12 COMMISSIONER MACKINTOSH: That is to say,  
13 if there was a significant rise in the short-term  
14 rate of interest you would lighten on long-term bonds  
15 and invest short-term in the expectation you could  
16 later go back into the long end of the market at a  
17 better price?

18 MR. BRYDEN: Yes. You tend to trade between  
19 shorts and longs. You tend to trade between credits.  
20 You tend to trade between different categories based  
21 on the spread of interest yield which could be is  
22 either wide or narrow.

23 COMMISSIONER GIBSON: But you just don't  
24 respond to a signal. You make your judgment in the  
25 light of the various factors in the market-place,  
26 in the light of what the central bank is doing and  
27 saying, but the signal is only one relatively small  
28 part of this whole thing?

29 MR. BRYDEN: I think the signal in most  
30 cases would really confirm or otherwise the judgment



in the interest rate level. I don't think, for what  
it is worth, that where the central bank gives a  
signal only comes after a certain situation has  
developed. We, I think, are watching the basic  
situation and to some extent may even anticipate such  
a signal in determining what we think the trend of  
interest rates is likely to be, and having made a  
determination on that we then move to the extent we  
can to capitalize on the expected trend.

COMMISSIONER MACKINTOSH: What is to say,

if there was a significant rise in the short-term  
rate of interest you would lighten on long-term bonds  
and invest short-term in the expectation you could  
later go back into the long end of the market at a  
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could really conflict or otherwise the judgment





1 which you had already made.

2 COMMISSIONER GIBSON: Or which you were in  
3 the process of making?

4 MR. BRYDEN: Yes.

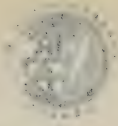
5 MR. LEMMON: Perhaps a situation that  
6 developed in England over the last few years could  
7 illustrate this, because I think it is true they have  
8 used monetary policy more drastically than countries  
9 on this continent in recent years.

10 The first time the Bank of England rate  
11 went to 7 per cent the rate on long-term British  
12 Governments didn't go very much over 5 per cent because  
13 the attitude of the market seemed to be that the  
14 situation they were contending with by means of the  
15 short-term rate was a relatively short lived situation  
16 and would likely be corrected within nine months or  
17 a year and that the long-term rate would not likely  
18 follow it. The next time the Bank of England rate  
19 went to 7 per cent the long-term market was not nearly  
20 as optimistic and felt the difficulties were much more  
21 deep-seated and not apt to be corrected so quickly,  
22 and the rate on British Government long-term bonds  
23 was up around 6-3/4 per cent.

24 COMMISSIONER LEMAN: You make a reference  
25 here to perverse regulations: Is this the general  
26 area you had in mind there?

27 MR. LEMMON: That is right.

28 COMMISSIONER LEMAN: You also state that  
29 different national intermediaries are, of course,  
30 through responsiveness to the short-term or long-term



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1 structure not affected quite so immediately or so  
2 directly by monetary policy changes, the chartered banks  
3 being the very first. In this chain, among institutions  
4 as against individuals, would you be about at the end  
5 of the line?

6 MR. BRYDEN: I don't know you can have any  
7 particular judgment on that. Certainly, as you say, the  
8 Central Bank's actions affect first of all the chartered  
9 banks. I suppose -- and I am only supposing -- the  
10 next place it may be felt is in what has been termed  
11 normally "near banks" who conduct relatively the same  
12 type of business. Then I think you move out to other  
13 financial institutions. Whether the individual --  
14 where he would fit, I don't know. So, whether we are  
15 at the end of the line or not, I don't know. I do  
16 think, though, that with the type of investment management  
17 that seems to exist throughout the industry I would doubt  
18 very much if we are at the end of the line.

19 COMMISSIONER MACKINTOSH: But surely the  
20 communication of a change in interest rate is instantaneous?  
21 It does not run down a queue?

22 MR. BRYDEN: No.

23 COMMISSIONER MACKINTOSH: Everybody gets  
24 the same signal?

25 MR. BRYDEN: But some people are in a  
26 position to react to that, I would suspect, a little  
27 faster. As far as life insurance companies are  
28 concerned, I think it has to be borne in mind that  
29 we are almost constantly fully invested. That is what  
30 we have to do. We cannot afford to stay with idle





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1 cash for long because it has an effect on our interest  
2 earnings, and the interest earnings are a very high  
3 part of our competitive position with other companies.  
4 So that you do have always a large body of investments  
5 which you are holding. You do have a cash inflow  
6 coming in pretty regularly. You can deal with your  
7 cash inflow quite easily and quite quickly. To get  
8 at your existing investments you then must determine  
9 whether there are trading opportunities, and, to the  
10 extent there are, those companies who trade proceed  
11 to do exactly that, and in that way bring the whole  
12 structure of interest rates back into some reasonable  
13 balance -- the kind of a balance that existed probably  
14 before the change in trend occurred.

15 COMMISSIONER MACKINTOSH: So, one answer  
16 is that within the industry those companies who have  
17 a very active trading policy do respond very quickly?

18 MR. BRYDEN: Very quickly.

19 COMMISSIONER MACKINTOSH: If a company does  
20 not trade, of course, it does not respond.

21 MR. BRYDEN: And I think on that basis,  
22 even though the degree of trading is different with  
23 different companies, that one table that showed our  
24 gross investment in terms of our net investment in  
25 a year showed something like three to one, and it  
26 was about  $2\frac{1}{4}$  to one excluding the federal bonds and  
27 treasury bills. So that, that is some measure of the  
28 trading impact that goes on.

29 COMMISSIONER MACKINTOSH: Another thing  
30 which I think would be of some use to point out: You



earnings, and the interest earnings are a very high part of our competitive position with other companies. So that you do have always a large body of investments which you are holding. You do have a cash inflow coming in pretty regularly. You can deal with your cash inflow quite easily and quite quickly. To get at your existing investments you then must determine whether there are trading opportunities, and to the extent there are, these companies who trade proceed to do exactly that, and in that way bring the whole structure of interest rates back into some reasonable balance -- the kind of a balance that existed probably before the change in trend occurred.

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COMMISSIONER MCKINNON: Another thing





1 say you are always fully invested, but you stand pretty  
2 high among the groups in having a highly dependable  
3 cash inflow?

4 MR. BRYDEN: That is right.

5 COMMISSIONER MACKINTOSH: And this affects  
6 your investment position. There are a lot of  
7 institutions that may not be invested, but they haven't  
8 got this additional cash inflow.

9 MR. BRYDEN: We have a very predictable  
10 cash inflow and that is what makes it possible, (a) to  
11 be quite fully invested and (b) to even anticipate, as  
12 forward commitments, that cash inflow over a period.

13 COMMISSIONER LEMAN: To supplement the  
14 mechanical workings of monetary policy, you make  
15 reference to both the open-mouth policy of the monetary  
16 authorities and the moral suasion system -- an expression  
17 I don't like because it is not English. But, as I  
18 gather, you make the point that moral suasion should  
19 be done in private, if at all; is that right?

20 MR. BRYDEN: I would agree, yes, but again  
21 I don't know -- yes, this is an industry view in the  
22 sense that it was put into the brief.

23 COMMISSIONER MACKINTOSH: I am not quite  
24 sure what that means.

25 MR. BRYDEN: Everybody else nodded, so  
26 I guess that is all right. I think this whole matter  
27 of publicity as far as the operation of the Central  
28 Bank is concerned is rather difficult. Throughout  
29 the brief we have said that the Bank should make the  
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2 emerging views on monetary policy constantly before  
3 the Minister. I think we have said that public statements  
4 of intent should only come at rare intervals at the  
5 point at which there is some major change in policy  
6 or major event occurs. I think we have said if changes  
7 in the discount rate can be made meaningful then that  
8 would be so much the better as an indicator, and that  
9 discussions with interested groups should be conducted,  
10 and I think are most effective when done without undue  
11 publicity. It has always been my feeling that central  
12 banking is a very complex business even for the experts,  
13 and the more that is said the more misinterpretation  
14 is likely to be drawn from those statements.





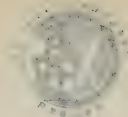
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2                   that it just about cannot be expressed in headlines.  
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4                   me, is in a position of appreciating in the round  
5                   all the various factors that are bearing on the  
6                   continuous decisions which he has to make and make  
7                   in the light of his assessment of what the current  
8                   situation is.

9                   Discussions with interested groups such as  
10                  the banks -- and I understand that he has them fairly  
11                  regularly with his money-market dealers, if you will --  
12                  are one thing. Those people are in a special situation  
13                  in the sense that they have a continuing relationship  
14                  with the central bank and also a background of the sort  
15                  of mutual understanding and knowledge, but I think that  
16                  any publicity concerning that kind of discussion would,  
17                  in the first place, inhibit the discussions and, secondly,  
18                  would lead very easily to a wide-scale misinterpretation  
19                  of what the real intent of the discussion was, and as I say,  
20                  I think those are the reasons why we feel that the  
21                  Bank of Canada should be able to conduct its affairs  
22                  in reasonable anonymity.

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24                  a market; there has to be a buyer as well as a seller  
25                  and there is a difference of opinion which creates the  
26                  market and it would seem unconscionable to me if the  
27                  central bank had to trot out its intent and everything  
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1 ruin the market, you would not have a market.

2 COMMISSIONER LEMAN: You say in certain  
3 circumstances moral suasion could be resorted to. How  
4 effective do you think it is?

5 MR.BRYDEN: I think it is quite effective  
6 amongst those groups who have that sort of continuing  
7 relationship. Moral suasion -- again I agree with  
8 you that that is a very difficult word to use, but,  
9 for example, and going back to the life companies'  
10 own experience during the war, there were several  
11 meetings held with the Minister of Finance with  
12 regard to investment in war loans, and as a result  
13 of the understanding that we got of the subject at  
14 that time et cetera virtually all of our available  
15 cash during that period was funnelled into war loans.  
16 It was done quite willingly on our part. It was done  
17 a little ahead of receipt of <sup>our</sup> income and on the whole  
18 that worked extremely satisfactorily.

19 There are other conditions which might  
20 exist which would have the same effect, but I believe  
21 I do not think that moral suasion should operate  
22 to try to get any group to do anything which is not  
23 in their own best interests to do, and I imagine that  
24 any Governor of the central bank would tread very  
25 carefully on that score so to that extent "suasion"  
26 is really not a good word.

27 COMMISSIONER LEMAN: I think I would like  
28 to make an exception for war time. Things may be  
29 changed during war time. Let us talk about peace time.  
30 You bring in one example here about the conversion loan



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COMMISSIONER LEMAN: I think I would like

to make an exception for war time. Things may be

different then, and I think that is what I mean.

You think it is a reasonable thing to do in war time.



1 where you say that the insurance companies as an industry  
2 were brought to Ottawa about the conversion loan. Is  
3 that a fact?

4 MR. BRYDEN: Yes, that is right

5 COMMISSIONER LEMAN: That is in the brief,  
6 is it not?

7 MR. BRYDEN: Yes.

8 COMMISSIONER LEMAN: This was not much before  
9 the conversion loan was out, was it?

10 MR. BRYDEN: No, that was at a time when  
11 it was contemplated it was about to be done, and the  
12 representatives, or at least some of the representatives  
13 of the insurance companies, together with other financial  
14 institutions were brought to Ottawa, and the whole  
15 operation was explained in very considerable detail  
16 and I think that that was a very effective method at  
17 that point of building and giving a complete background  
18 on that conversion operation. It was much better to  
19 have had that background of the operation than to all  
20 of a sudden have it hit you in the face that such and  
21 such a bond issue was being converted. As to what  
22 results it had, it is a little difficult to say. I  
23 think as a result of that the chances are there were  
24 more bonds bought by the companies than might have  
25 been bought had it merely come as another issue.

26 Would you agree on that?

27 MR. LEMMON: The records show that we did  
28 not buy it in those two periods.

29 MR. BRYDEN: Well, that is the on-balance  
30 figure, but I have forgotten what the subscriptions were





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MR. BLANDEN: Yes.

COMMISSIONER LEHMAN: This was not much before

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1 but I think a large number of the companies participated  
2 in the purchases of conversion bonds. Now, to the  
3 extent that we at the same time let something else run  
4 off is another matter.

5 MR. HOLMES: In other words, it was a con-  
6 version operation. We had the old bonds in that  
7 case.

8 MR. BRYDEN: In most cases on the bonds  
9 there were cash purchases too.

10 MR. LEMMON: There were cash purchases, yes.

11 COMMISSIONER LEMAN: This was an operation  
12 which did not understand that moral suasion was being  
13 used -- I am not sure this is what was being done --  
14 by informing you in this case. There certainly was  
15 no implication that the government wanted your industry  
16 to do anything against its best interests in its own  
17 judgment.

18 MR. BRYDEN: I do not think that this could  
19 be called moral suasion, really. I think this was a  
20 meeting to put us in the position, the larger buyers  
21 in possession of the background and reasons for this  
22 operation. I would doubt very much if you would call  
23 that meeting at that time anything that would have any-  
24 thing to do with moral suasion as such.

25 MR. POYNTZ: It was just communication.

26 MR. BRYDEN: Yes, and I think very effectively  
27 done at that time.

28 COMMISSIONER LEMAN: Well, in the sense that  
29 it was not moral suasion, what about communication by  
30 means of a sort of open mouth policy as to what the



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28 COMMISSIONER LEMAN: Well, in the sense that  
29 it was not moral question, what about communication by  
30 means of a sort of open mouth policy as to what the





1 objectives are and why would this sort of thing have  
2 to be done in private?

3 MR. BRYDEN: Well, I do not think you want  
4 open mouth policy, as you put it, under normal operating  
5 circumstances. This was a special operation and it  
6 was a very desirable one, but in the normal matter of  
7 events I do not think you would need to go that far  
8 to develop your communications. I think this is the  
9 sort of thing that should happen under special situations.

10 COMMISSIONER GIBSON: There is a point I  
11 would like to raise, Mr. Chairman, in this regard. You  
12 say in the exercise of moral suasion -- I think it is  
13 better to call it persuasion here -- that the central  
14 bank should not ask anybody to operate in a manner  
15 that is against its own interests. Now, this brings  
16 up the very difficult problem of timing. It is a  
17 question of how you judge your own interests. If you  
18 take the long view today you would agree with them;  
19 if you took the short view today it is against your  
20 interests. When somebody tries to convince you to do  
21 something you were not otherwise going to do, then in  
22 fact you are being asked to do something which you  
23 thought at that immediate point not in your own interests.  
24 I suggest that persuasion or moral suasion is asking  
25 you something just at that particular moment which you  
26 would not otherwise have done. Is this a reasonable  
27 explanation?

28 MR. BRYDEN: Yes, using moral suasion  
29 in that sense I think that is probably true. In the  
30 sense we were talking about in the conversion loan, I



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COMMISSIONER GIBSON: There is a point I would like to raise Mr. Chairman, in this regard. You say in the exercise of moral suasion -- I think it is bank should not ask anybody to operate in a manner that is against his own interests. Now, this brings up the very difficult problem of timing. It is a question of how you judge your own interests. If you take the long view today you would agree with them; if you took the short view today it is against your interests. When somebody tries to convince you to do fact you are being asked to do something which you thought at that immediate point not in your own interests I suggest that persuasion or moral suasion is asking you something just at that particular moment which you would not otherwise have done. Is this a reasonable explanation?

MR. BRYDEN: Yes, using moral suasion in that sense I think that is probably true. In the



1 think it was, perhaps, communication. There was no  
2 pressure brought on us to do anything. It was communication  
3 to us and subsequently we made up our own minds having  
4 regard to the total operations, the context in which we  
5 would convert the existing bonds, whether you bought  
6 additional bonds for cash or what have you. I do not  
7 think that could be termed moral suasion in any sense.

8 COMMISSIONER GIBSON: I think that is a  
9 different case but you say in your brief that there  
10 are times when you think the central bank should use  
11 moral suasion, rather emergency times, the suggestion  
12 is, but you qualify this by saying that people should  
13 never be asked to do things -- in your own testimony,  
14 to do things that are against their own interests.  
15 I wonder if this really stands up?

16 MR. BRYDEN: Can you give me the reference  
17 in the brief?

18 COMMISSIONER LEMAN: Page 98.

19 MR. BRYDEN: I still do not quite see where  
20 we said that moral suasion was a good thing.

21 COMMISSIONER MACKINTOSH: It must be if it  
22 is moral.

23 THE CHAIRMAN: What I am trying to figure  
24 out is what has the "moral" got to do with it no matter  
25 how you look at it?

26 COMMISSIONER GIBSON: I am sure somewhere  
27 you say there are times when moral suasion should be  
28 used or could be used. But you know your brief and  
29 if you did not say it that is not the case.

30 THE CHAIRMAN: I thought I saw it some place.





think it was, perhaps, communication. There was no  
pressure brought on us to do anything. It was common  
to us and subsequently we made up our own minds having  
regard to the local operations, the context in which we  
would convert the existing bonds, whether you bought  
additional bonds for cash or what have you. I do not  
think that could be termed moral question in any sense.  
different case but you say in your brief that there  
are times when you think the central bank should use  
moral question, rather emergency times, the suggestion  
is, but you qualify this by saying that people should  
never be asked to do things -- in your own testimony,  
to do things that are against their own interests.  
I wonder if this really stands up?  
MR. BRYDEN: Can you give me the reference  
in the brief?  
COMMISSIONER LEWIS: Page 98.  
MR. BRYDEN: I still do not quite see where  
we said that moral question was a good thing.  
COMMISSIONER MACKINOSH: It must be if it  
is moral.  
THE CHAIRMAN: What I am trying to figure  
out is what has the "moral" got to do with it no matter  
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COMMISSIONER GIBSON: I am sure somewhere  
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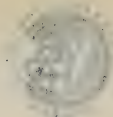


1 MR. BRYDEN: I think on page 97 we start a  
2 discussion of persuasion and discussion. We made the  
3 point that discussions take place with the chartered  
4 bankers at fairly regular intervals with money market  
5 dealers and others of the financial community from  
6 time to time, that some of these were initiated by  
7 the banks and some by interested groups and we feel  
8 that discussions of this sort and a free exchange of  
9 views cannot help but be constructive and build con-  
10 fidence each in the other.

11 Then, paragraph 6.35 relates our own special  
12 instance where we have had that type of discussion.  
13 We refer to the war time period. We refer also to  
14 once having a discussion in 1951 on the subject of  
15 inflation. We also mention, I think, that conversion  
16 loan operation. We mention discussions which produced  
17 eventually the statistics of the purchases and sales  
18 of the twelve large companies and this is concluded  
19 by saying that these meetings and discussions were  
20 an effective means of communication and we believed  
21 useful at the time and in the context of events, and  
22 that they should continue to be contemplated when  
23 matters of importance arise and we believe that they  
24 are most effective when conducted without any undue  
25 publicity. I am having a little problem with this  
26 persuasion thing here.

27 THE CHAIRMAN: I think the expression must  
28 have been in the Investment Dealers brief.

29 COMMISSIONER GIBSON: Possibly. You were  
30 talking about this question of moral suasion and you



MR. BRYDEN: I think on page 27 we start a

discussion of the problem of inflation and deflation.

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Talking about this question of moral evasion and you





1 seemed to think that there were circumstances when  
2 you should use this approach and you qualified it by  
3 saying that people should not be asked to do anything  
4 against their interests. This is the problem that  
5 bothers me, that you say that people should not be  
6 asked to do anything against their interests and then  
7 say this should be continued.

8 MR. HOLMES: I think it means we should  
9 be free to use it.

10 MR. POYNTZ: I think on the question of  
11 semantics Mr. Gibson is right, that if there is need  
12 for persuasion you are going against somebody's  
13 judgment, some preconceived judgment, anyway.

14 MR. RIEDER: On the other hand, there  
15 will be times when what is good for the country is  
16 good for us as an industry and perhaps we have to  
17 be persuaded to that effect.

18 COMMISSIONER GIBSON: It is taking a longer  
19 view than you otherwise would have taken.

20 THE CHAIRMAN: It is in the general public  
21 interest which might at the moment conflict with your  
22 interest but your interest is in the long run involved  
23 with the public's.

24 MR. POYNTZ: Yes, and the question of the  
25 persuasion involves communication. At the same time  
26 the communication might alter the judgment of those  
27 you are trying to persuade.

28 THE CHAIRMAN: That is what you are doing  
29 every day when people are buying your insurance.  
30





1 MR. HOLMES: It is all for their own good,  
2 though.

3 MR. BRYDEN: That is what is known as using  
4 the close.

5 COMMISSIONER GIBSON: This same basic problem  
6 in the long run versus the short run comes up in your  
7 discussion of objectives. In the long run what you  
8 say is right, that these various objectives are not  
9 really comparable but the long run does not mean  
10 very much in terms of real savings and when the actual  
11 day to day decisions are made they are frequently in  
12 conflict, not always. You are not sure whether they  
13 are or whether they are not, but there is very often  
14 considerable doubt. With this in mind I would be  
15 very interested to know where you would put the  
16 emphasis on these various objectives. For instance,  
17 at any given time, assuming there is some unemployment  
18 and we are not in a strong business situation and  
19 regardless of running a deficit, should the deficit  
20 be increased. These are the actual kind of decisions  
21 you come up against day by day and these are decisions  
22 that determine how you get your balance in these matters.  
23 I wonder if you would care to comment more directly  
24 on this problem.

25 MR. BRYDEN: Well, it is awfully difficult  
26 to make direct comments until you are actually faced  
27 with the responsibility of making the decision. It  
28 is awfully easy to have views from the outside. Again  
29 it seems to me that particularly those two objectives  
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1 we have been talking about, there are times when one  
2 should be uppermost and there are other times when the  
3 other one should be uppermost. You cited a situation  
4 where we have some degree of unemployment, not a very  
5 robust business situation, et cetera. It is the point  
6 at which you would try, it seems to me, to bring the  
7 whole arsenal of weapons to avoid or cushion the recession.  
8 Each recession is different. Your policy at that point  
9 is probably going to be your best judgment as to what  
10 is going to improve the situation.

11 As that starts to head out, then I think at  
12 some point/stability becomes uppermost and again you have  
13 to pull in as many weapons as you can and give careful  
14 emphasis to the maintenance of price stability. At  
15 some point we cut down again and I sort of visualize  
16 this as a veering towards these two sort of parallel  
17 objectives, if you will, and the decisions are difficult.

18 COMMISSIONER GIBSON: Let us put it more  
19 specifically. Supposing in the process of taking out  
20 the arsenal, or if you reached a point where business  
21 is very good and that this involves running deficits  
22 which concern the buyers of bonds and maybe even  
23 foreigners about our currency, then what do you do?

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1 we have been talking about, there are three main points  
2 which are important and which are more or less the  
3 same in all countries. You have a situation  
4 where we have some degree of unemployment, not a very  
5 robust business situation, et cetera. It is the point  
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1 In the short run, as we all know, these things can be  
2 very much in conflict.

3 MR. BRYDEN: I think that you have to do  
4 your best to operate your way through these imbalanced  
5 situations. You are not always going to be able to  
6 do it without getting hurt because it does seem that  
7 at times you get into a position where you have  
8 expectations, or have had them, or you have got a  
9 standard of living which you cannot maintain from your  
10 own resources. True, you hit these down periods such  
11 as I think we are in now, for example. I am not sure  
12 at all that we can get back into balance without some  
13 stresses and strains at least in various areas of the  
14 economy. I think you have to take them in order to  
15 once again get yourself a little more on side, if you  
16 will, with your balance of payments. You certainly  
17 have to take what steps you can to improve your un-  
18 employment situation. Inflation is rarely a problem  
19 at the point at which you have unused plant capacity,  
20 but as soon as your situation starts to tighten up  
21 I think your emphasis have to shift over to the other  
22 end of it.

23 The perverse portion of it is that under-  
24 lying the whole thing is the matter of confidence  
25 on the part of investors and others; confidence that  
26 the situation is in balance. I think that that  
27 confidence sort of declined within recent months  
28 for what you could consider fairly obvious reasons  
29 looking back at this point. As soon as you have any  
30 erosion of confidence, I do not think the reactions of



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1 other individuals, particularly foreigners, to our  
2 situation follows the normal pattern. There is a sort  
3 of scare element enters into it, and that could reasonably  
4 well be part of the reason why we at the moment do not  
5 appear to be as attractive to foreign capital as we  
6 have been.

7 I think that is all a portion of the lack  
8 in confidence on the part of foreigners, as far as  
9 we are concerned, and it is leading to very significant  
10 problems; problems which we are going to have to face  
11 to once more get ourselves back in the position where  
12 we are relying on our own efforts, because I think it  
13 is true that no other countries in the world owe us a  
14 living. We have to make our living for ourselves.

15 MR. HOLMES: I do not know anything about  
16 these finer elements of adjustment from time to time,  
17 but I should like to say that very definitely I do  
18 not think a solution to our problems comes from a  
19 continuing government deficit, or can come from a  
20 continued government deficit. If you have unemployment  
21 problems or problems relating to stability of currency  
22 and you cannot see your way clear to rid yourself of  
23 continuing governments you are in trouble continually.

24 COMMISSIONER GIBSON: In other words, you  
25 put high priority on the value of the currency?

26 MR. HOLMES: I put quite high priority  
27 on the value of the currency, and I do not think that  
28 other problem is solved by definite inflationary policies.

29 COMMISSIONER BROWN: You have doubt as to  
30 the efficacy of monetary policy?





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1 MR. HOLMES: We have had inflation really  
2 for about 30 years and we now end up with a fairly high  
3 degree of unemployment.

4 THE CHAIRMAN: Yes, but during a great  
5 part of that time we had a reasonable high degree  
6 of employment.

7 MR. HOLMES: Yes, but what is the solution;  
8 another 30 years of inflation?

9 COMMISSIONER BROWN: This gets back to the  
10 point that you have no confidence in monetary policy  
11 as an instrument?

12 MR. HOLMES: Well, no, I would not say that,  
13 but I think you have got to get very much nearer to  
14 a balanced budget before you can adjust back and forth.  
15 You are in a position now where every time you try to  
16 cure unemployment or lowered business you just add to  
17 the deficit.

18 COMMISSIONER BROWN: Putting it this other  
19 way, you have greater confidence in monetary policy  
20 to slow things down than its effectiveness in making  
21 things better?

22 MR. HOLMES: No, I would not say that,  
23 either, but you are in a position now where you have  
24 not any leeway; you can only move one way.

25 MR. BRYDEN: I think, Mr. Chairman, that  
26 monetary policy is a flexible instrument; it is of  
27 general application; it is extremely useful, but it  
28 is not a wonder cure for everything because to me  
29 monetary policy cannot make up for too many unbalanced  
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10 make up for deficiencies in other policies.

11 COMMISSIONER BROWN: What I was trying to  
12 get at was that Mr. Holmes's opinion of the current  
13 situation is apparently one that cannot be resolved,  
14 or at least he does not think the unemployment situation  
15 can be resolved by monetary and fiscal policies.

16 MR. HOLMES: No, I do not quite agree when  
17 you say monetary and fiscal policies. It certainly  
18 cannot be resolved by monetary policies at the present.

19 COMMISSIONER BROWN: Well, what sort of  
20 fiscal policies would you think should go into effect  
21 to resolve the unemployment situation?

22 MR. HOLMES: Well, I think you have in one  
23 way or another to reduce your government deficits so  
24 that you are in a position to use policies to encourage  
25 business improvement, or to cool it off.

26 COMMISSIONER BROWN: Your thought is that  
27 you have got yourself strapped into a situation where  
28 the first move is to re-establish confidence?

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MR. HOLMES: I think you have to move in



1 some way to re-establish a balance. You must have control  
2 of the situation.

3 COMMISSIONER BROWN: Have you any comment  
4 to make about that, Mr. Bryden?

5 MR. BRYDEN: As to what we should do  
6 currently?

7 COMMISSIONER BROWN: Yes, all right, what  
8 should we do currently?

9 MR. McCARTHY: I would think, Mr. Brown,  
10 if there is a man in this country that can give you  
11 an answer to that question he has a public duty to come  
12 forward and tell us about it.

13 COMMISSIONER BROWN: I am trying to find  
14 out.

15 COMMISSIONER LEMAN: I would like to ask  
16 a couple of questions in respect to the pension fund  
17 area and segregated fund area.

18 Basically would you say that the introduction  
19 of this segregated fund legislation would mean that  
20 insurance companies are pretty well being used as  
21 administrators of the investment management for the  
22 fund much like a trust company would be? That is about  
23 it, is it?

24 MR. TUCK: We still must issue insurance  
25 contracts.

26 COMMISSIONER LEMAN: Must there be an  
27 insurance element connected with it?

28 MR. LEMMON: There must be, yes.

29 COMMISSIONER LEMAN: But the insurance  
30 element is not an important one in that case? I under-



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1 stood yesterday during the brief reference we had to these  
2 funds that this was a case where your investment policies  
3 would be, shall I call it, much more liberal than with  
4 regard to your insurance reserves. What is the insurance  
5 element with regard to these segregated funds?

6 MR. TUCK: Mr. Leman, the statute refers to  
7 two kinds of life insurance, using that in the broad  
8 sense of the term, under which the segregated fund  
9 technique could be applied. One is equities and  
10 the second is insurance providing for the establishment  
11 of accumulation and payments for certain things, but  
12 the word "insurance" precedes all these other things,  
13 so that our understanding is that companies must include  
14 in their contracts that are backed up by these segregated  
15 funds some form of insurance such as a guarantee of the  
16 mortality rate on the annuities that emerge or a  
17 guarantee of the annuity rates themselves. The thing  
18 that is flexible in the segregated funds is the invest-  
19 ment that can be used to back it up. That is the  
20 essential difference from the segregated funds and  
21 our guarantee business. The quantitative restrictions  
22 do not apply, nor do the real estate restrictions.

23 COMMISSIONER LEMAN: Would the act prohibit  
24 you now from acting just like say a trustee in managing  
25 a pension fund?

26 MR. TUCK: We cannot be a bare trustee.

27 COMMISSIONER LEMAN: I wonder if the trustee-  
28 ship element is absolutely essential. If a corporation  
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1 a pension fund for our employees to which we will con-  
2 tribute and to which the employees will contribute and  
3 you are going to manage it for us and make the investments  
4 for us, would you necessarily be a trustee unless the  
5 instrument creating it makes you a trustee?

6 MR. TUCK: We would not be a trustee. We  
7 would be held pursuant to the contract to relations  
8 between parties to an ordinary contract.

9 COMMISSIONER LEMAN: You could do that?  
10 There is nothing in the law that prevents you from  
11 doing that?

12 MR. TUCK: That is how we would do it.  
13 We cannot get ourselves in the position of being a  
14 trustee in the legal sense of that word.

15 COMMISSIONER LEMAN: This is not a business  
16 that has been entered into by insurance companies, is it?

17 MR. TUCK: Well, the machinery for using  
18 these segregated funds was only inserted in the act  
19 a couple of years ago -- less than that, a year ago  
20 March.

21 MR. RIEDER: We could do what you suggest,  
22 I understand, but we would also have to guarantee some  
23 annuity rates to be used with that money at retirement  
24 age and that is where the mortality element or insurance  
25 element comes in. A trust company cannot do that.

26 COMMISSIONER BROWN: You do not guarantee  
27 what the fund is going to amount to at age 70 but you  
28 guarantee what annuity you will provide for each dollar  
29 that is then available, is that the point?  
30



...to which the employees will contribute and  
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...the money you contribute is a trust fund.

instrument creating it makes you a trustee?

MR. TUCK: We would not be a trustee. We

would be held pursuant to the contract for relations  
between parties to an ordinary contract.

COMMISSIONER LEWIS: You could do that?

There is nothing in the law that prevents you from  
doing that?

MR. TUCK: That is how we would do it.

We cannot get ourselves in the position of being a  
trustee in the legal sense of that word.

COMMISSIONER LEWIS: This is not a business

that has been entered into by insurance companies, is it?

MR. TUCK: Well, the machinery for using

these segregated funds was only inserted in the act  
a couple of years ago -- less than that, a year ago

March.

MR. RABER: We could do what you suggest,

I understand, but we would also have to guarantee some

annuity rates to be used with that money as retirement

age and that is where the mortality element on insurance

element comes in. A trust company cannot do that.

COMMISSIONER BROWN: You do not guarantee

what the fund is going to amount to at age 70 but you

guarantee what annuity you will provide for each dollar

...is not a business, is it?



1 MR. BRYDEN: That is the point. In fact,  
2 in respect to pension plans we offer the facility of  
3 the investment of some portion of the plan in equities.  
4 We do not guarantee in any shape or form what that  
5 equity portion will amount to. We do, however, guarantee  
6 reconversion, if you will, from the equity into actual  
7 annuities at specific rates.

8 COMMISSIONER BROWN: Even though the doctors  
9 come up with something so that people can live for 150  
10 years, you guarantee this?

11 MR. BRYDEN: It is guaranteed as of now.  
12 We would be sorry if that happened.

13 MR. LEMMON: Individually or collectively?

14 MR. BRYDEN: I could not care less.

15 MR. RIEDER: We have both sides of that;  
16 we have the insurance and annuities.

17 COMMISSIONER BROWN: I expected somebody to  
18 bring that up.

19 COMMISSIONER LEMAN: In relation to this  
20 you refer to the government pension scheme and you  
21 express some concern about the level at which the  
22 universal pension has reached. We will talk about it  
23 some more. How would you measure what is the proper  
24 point at which this ought to stop?

25 MR. BRYDEN: Mr. Holmes would you like to  
26 talk about that second debt position?

27 MR. HOLMES: I think the level is determined  
28 by what you are prepared to pay for it without taxing  
29 yourself so heavily that you affect your growth and the  
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1 growth of the business. I think that is the level  
2 at which you can pay for social services.

3 I think also you have to be sure you know  
4 that you are paying for them. That is one objection  
5 we have to the second debt type of loans in the  
6 United States, because they are promising things that  
7 they are not at the moment paying for.

8 COMMISSIONER LEMAN: They are not funding  
9 their liability; their calculated liability?

10 MR. HOLMES: It is calculated on a funded  
11 basis but without funding.

12 MR. POYNTZ: It is a cross subsidy from one  
13 generation to another.

14 COMMISSIONER LEMAN: Is it basically your  
15 philosophy here that these things should be funded  
16 as they go along?

17 MR. HOLMES: Our own basis in this country  
18 is quite a sound basis. We pay for it, practically  
19 speaking, as we go along. So, if you make \$65 a month  
20 and can pay for it, that is O.K. You know at once  
21 whether you can pay for it or not. At the moment  
22 we are not paying for it one way or another, and that  
23 is a cinch, but we know what it is and we know what  
24 we should pay for it. If we can pay for it, that  
25 is fine.

26 We approve of the basis used in Canada  
27 for old age security.

28 COMMISSIONER LEMAN: I do not see in what  
29 sense in Canada the old age pension is being particularly  
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1 sound, in the sense that it is not funded, is it?

2 MR. HOLMES: No, I do not think the govern-  
3 ment can fund a scheme, and that is the difficulty  
4 of thinking of a funded scheme for government policies.  
5 They cannot do it and never have done it.

6 In respect to the American scheme there  
7 originally was a great debate as to whether it ought  
8 to be funded or not. Finally what solved that question  
9 was that if they funded it on the original basis it  
10 would have been far more than the debt in the United  
11 States. They decided not to fund it and to use it  
12 as a pay as you go scheme, but it was an improperly  
13 devised scheme for a pay as you go scheme because it  
14 was not universal and did not go to people of all ages.  
15 The result is that at first all they had were contri-  
16 butions with nobody drawing from the fund. It has  
17 gone on and is still very largely in that category.  
18 That is, the people paying for the fund are not paying  
19 for what they are promised in the way of benefits.

20 COMMISSIONER BROWN: Well, if we look at  
21 these various plans and schemes, especially the ones  
22 operated in the private sector, you seem to imply that  
23 pension funds et cetera are good for the economy.  
24 Probably they are if they encourage savings. I suppose  
25 that would make them good for the economy, but when  
26 you look at the investment side of these funded plans,  
27 the type of investments that they have attracted to  
28 date -- those that are in the class of what we call  
29 trustee investment plans -- in what sense do you think  
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Now, when you look at the way in which the government operates in the private sector, you seem to imply that pension funds et cetera are good for the economy.

That would make them good for the economy, but when you look at the investment side of these funded plans, the type of investments that they have attracted to date -- those that are in the class of what we call trustee investment plans -- in what sense do you think



1 they are so beneficial to the economy if they do not  
2 introduce people into risk ventures and that sort of  
3 thing?

4 MR. HOLMES: Well, there are others. I  
5 do not feel at all that a loan type of investment is  
6 not in the public interest. Without the loan type  
7 of investment you would not have the savings of  
8 individuals at all. I mean, they would not be able  
9 to own their own homes unless there was loanable money,  
10 because they do not have that much money at one time.  
11 I do not look at the risk type of investment as being  
12 superior to the loan type of investment. It is the  
13 balance that you want. There are certain people that  
14 want to take a risk but they want to borrow the money  
15 from somebody else to carry it through. There are  
16 risk takers who have become millionaires since the war  
17 borrowing life insurance company money, but who built  
18 the houses, the risk taker or the companies? I do not  
19 know. I do not think there is one section of capital  
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1                   COMMISSIONER LEMAN: What is important is  
2 what areas does the capital go to, whether in the form  
3 of loans or equities and distinguishing between loans  
4 or equities or distinguishing between the areas in  
5 which the funds are invested.

6                   MR. HOLMES: It gets into practically  
7 all areas in the country, I would think, through life  
8 insurance companies. It gets into mortgages, both  
9 industrial and residential. It gets into corporate  
10 bonds and it gets into every area, into the development  
11 of the country.

12                   COMMISSIONER LEMAN: Well, we reviewed  
13 yesterday the restrictions on the investment powers,  
14 and there are restrictions on investment powers of  
15 trustees in the places where there is trustee legislation  
16 and they are of a restricted character. Are they not  
17 a little bit of this rigidity?

18                   MR. BRYDEN: Don't we have to think, at  
19 least partly, in terms of why these particular funds  
20 exist. After all, they are savings by people who  
21 are members of the plan with a view to having a pension  
22 at the point at which they retire.

23                   Now, to a very great measure the money  
24 that goes in is a somewhat involuntary saving, if you  
25 will, in the sense that if you are a member there is  
26 a certain prescribed contribution that you must make,  
27 that they do produce rather large pools of private  
28 capital which is available for use in the capital  
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1 is to produce at the retirement period that pension.

2 Now, to what extent you could expect pools  
3 of that kind and with that end purpose in view to be  
4 invested in very new and high risk enterprises is  
5 an open question. The mortality in that particular  
6 field of investment is high and it requires a fair  
7 amount of money per investment to get into it even now.

8 I suppose that if you had 30 ventures, new  
9 business ventures, if you had two that really turned  
10 out, that might be as much as you might expect. You  
11 would probably have another group which just didn't  
12 make it and that is why diversification of risk within  
13 that area is important, but I do think it is pretty  
14 debateable to what extent pension fund monies as such  
15 should be used for that purpose.

16 There are other monies available -- not  
17 in pension funds -- and which can be used in moderation  
18 for that purpose. There also is money in the country  
19 that you know of that is constantly on the lookout  
20 for the financing of new business ventures. From my  
21 experience, some of that exists but doesn't seem to  
22 be being used.

23 COMMISSIONER LEMAN: Well, why would you  
24 think that is?

25 MR. BRYDEN: I guess that there are not  
26 enough new business ventures which the managers of that  
27 particular capital think sufficiently attractive to  
28 finance.

29 COMMISSIONER LEMAN: And yet we have the  
30 I.D.B. created and we have had requests from various



to provide an adequate fund for pension

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1 development banking has satisfied some measure of  
2 it, but how you get to the point that you can satisfy  
3 all, I don't know.

4 MR. POYNTZ: I don't believe you can make  
5 a good case for filling up the gap that exists because  
6 of the riskiness of a venture with a man's pension  
7 fund money.

8 MR. HOLMES: It must offer a credit if  
9 your pension fund money is used. That doesn't say  
10 that you can't take considerable risk providing the  
11 return on successful ventures is sufficient to pay  
12 for the risk on the unsuccessful ones.

13 Whether life insurance companies are  
14 entirely suitable for that sort of operation is very  
15 questionable, although we are venturing into some  
16 of what was described this morning. I think we are  
17 sympathetic to trying to get into that, but it is  
18 a different type of organization because the risk  
19 venture usually depends so much on the personality and  
20 the ability of the one man who is operating it and  
21 it is a difficult thing for an organization to assess  
22 the ability of the man.

23 THE CHAIRMAN: Thank you very much gentlemen;  
24 you made a very valuable contribution to our studies  
25 in the field that has been assigned to us, and we  
26 thank you very much.

27 It may be that in the next few weeks the  
28 staff may be in touch with you for further information  
29 if there is anything that occurs to us.

30 MR. BRYDEN: We shall be most happy to





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if there is anything that occurs to us.  
We shall be most happy to



1 co-operate in any way we can.

2 THE CHAIRMAN: We will now adjourn until  
3 8.45 tomorrow morning, when we shall hear the submission  
4 of the Investment Dealers' Association.

5 MR. RIEDER: Mr. Chairman, I personally  
6 have not had very much to say at this meeting, but  
7 some of my colleagues have, and if we have been of  
8 assistance to you in your job we are more than happy.

9

10 --- Adjournment at 12.35 P.M.

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Illegals and Foreign Born in U.S. : NATIONAL



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on  
Banking and Finance

Hearings  
held at

Ottawa

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SECTION 1

INTRODUCTION

1.1 The Canadian Life Insurance Officers Association is a voluntary organisation consisting of 100 companies in the life insurance business in Canada. These companies had \$50 billion of life insurance in force in Canada in 1961. This represents 99 per cent of the total life insurance (excluding fraternal benefit insurance) owned by nearly 9 million Canadians. The life insurance companies have more than \$8 $\frac{1}{2}$  billion invested in Canada on behalf of their policyholders and they are currently investing or reinvesting about \$1 $\frac{3}{4}$  billion each year.

1.2 The terms of reference of the Royal Commission on Banking and Finance are to:

"enquire into and report upon the structure and methods of operation of the Canadian financial system, including the banking and monetary system and the institutions and processes involved in the flow of funds through the capital market."

The life insurance companies are keenly interested in the Commission's deliberations and studies. They believe that a review of Canada's financial system is important and timely and hope that the information and views set forth in this submission will prove to be a constructive contribution to this review.

1.3 The Association provides a forum for the examination of consideration of problems common to the







Nethercut & Young

Toronto, Ontario

A.2.

1 industry. It operates only by making recommendations  
2 to its member companies which they are free to accept  
3 or reject. A list of member companies of this  
4 Association is appended together with the names of the  
5 members of the Special Committee responsible for the  
6 preparation of the submission.

-----  
7 1.4 Life Insurance is transacted in Canada by  
8 companies registered under federal insurance laws,  
9 by additional companies operating under provincial  
10 charters without federal registry, and by fraternal  
11 benefit societies. This submission relates only to the  
12 life insurance companies. Statistics on the operations  
13 of provincial companies are not as readily available as  
14 on federally-registered companies but are included  
15 wherever possible.



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SECTION 2

SUMMARY AND OBSERVATIONS

- 2.1 At the end of 1960, more than  $8\frac{1}{2}$  million Canadians owned \$47 billion of life insurance. This represented an average of \$10,400 per household. Canadians also had in force with the life insurance companies more than 649,000 annuity certificates providing for present and future annual payments of \$736 million a year. In addition, 5 million Canadians had some form of health insurance coverage provided by life insurance companies. (Paras. 3.15-3.28)
- 2.2. Life insurance was provided in Canada by 121 life insurance companies at the end of 1960. The number had expanded by more than 50 per cent in the preceding 25 years. Ninety-nine of these companies were registered with the federal Department of Insurance and 22 with provincial Departments only. Of the 121 companies, 58 were classified as Canadian while 63 were of external origin. Of the 58 Canadian companies, 20 were mutual, 5 were in the process of becoming mutual and 33 were companies with share capital. (Paras. 3.1-3.9)
- 2.3 The controlling stock interest in 12 of the 58 Canadian companies lies outside Canada. In the case of 7 of these, control has passed out of Canada since 1954. Permission to mutualize, that is to purchase their own shares, granted to stock companies in 1957, may have prevented further acquisitions of this kind. The Commission might consider, however, whether the prohibition in the Insurance Acts against the investing of Canadian life insurance funds in the shares of another





1 life company may not have militated against the  
2 retention of ownership of Canadian life insurance  
3 companies in Canada. (Paras. 3.10-3.14)  
4 2.4 Fourteen of the Canadian companies do  
5 business outside of Canada. The \$13 billion of life  
6 insurance these companies have in force abroad equals  
7 42 per cent of their total business. Of this business  
8 outside of Canada, 70 per cent is on the lives of  
9 policyholders in the United States, 16 per cent on persons  
10 in the British Isles, 2 per cent on Asians, 6 per cent  
11 on Africans and 6 per cent on persons in the Caribbean  
12 area and Latin America. Non-resident companies doing  
13 business here have about \$14 billion of life insurance  
14 in force on Canadians. (Paras. 3.3 and 3.4)  
15 2.5 The life insurance industry has been one of  
16 the prime financial intermediaries in the Canadian  
17 financial system for more than 100 years. In recent  
18 years saving through life insurance has averaged about  
19 1.7 per cent of disposable personal income and has  
20 amounted to more than 25 per cent of the personal saving  
21 of Canadians. Experience has shown that in periods  
22 relatively free of extraordinary economic or financial  
23 events, annual changes in insurance saving tend to more  
24 closely with changes in disposable personal income.  
25 Prolonged economic decline, however, has a relatively  
26 heavier impact on this form of saving than on disposable  
27 personal income while in periods of rapid inflation,  
28 with income rising, the increase in life insurance  
29 saving tends to respond more slowly. (Paras. 4.1-4.8)  
30 2.6 The regular methodical purchase of level-



not have militated against the  
development of the life insurance  
industry in Canada.  
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2.4 Fourteen of the Canadian companies do  
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in force on Canadians.  
(Paras. 2.15 and 2.16)

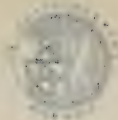
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The regular methodical purchase of life insurance



1 premium plans of life insurance is the basis for the  
2 accumulation of funds in the companies. Level-premium  
3 plans require the accumulation of a reserve during  
4 their early years to meet the rising level of claims  
5 that will occur during the later years. Although there  
6 has been in recent years a great growth in group  
7 insurance, which is almost always term insurance, and  
8 a rising proportion of term insurance in the sale of  
9 individual policies, the purchase of level premium  
10 "permanent" plans has increased in absolute amounts.  
11 In addition, an increasing proportion of saving has  
12 been done in the form of annuities. (Paras. 3.33-3.40)

13 2.7 The federal and provincial governments have  
14 shared responsibility for supervision of the insurance  
15 business in Canada since 1868. Briefly, for federally-  
16 registered companies the federal Department of Insurance  
17 concerns itself with the solvency of insurers and the  
18 provincial Departments with the regulations of the  
19 business. For some provincial companies provincial  
20 Departments assume both responsibilities. By and  
21 large, insurance legislation and government regulation  
22 have been well conceived and well administered in  
23 Canada. As new forms of investments, new types of  
24 policies and new problems have developed, amendments  
25 to the legislation have been sought and many have  
26 been enacted. (Paras. 3.44-3.47)

27 2.8 Saving through life insurance had resulted  
28 in the gradual accumulation of more than \$8.2 billion  
29 in assets held on behalf of Canadian policyholders  
30 and annuitants at the end of 1960. In addition, assets



their early years to meet the rising level of claims that will occur during the later years. Although there has been in recent years a great growth in group insurance, which is almost always term insurance, and a rising proportion of term insurance in the sale of individual policies, the purchase of level premium "permanent" plans has increased in absolute amounts. In addition, an increasing proportion of saving has been done in the form of annuities. (Table 2.33-2.40) The federal and provincial governments have shared responsibility for supervision of the insurance business in Canada since 1868. Briefly, for federally-registered companies the federal Department of Insurance concerns itself with the solvency of insurers and the provincial Departments with the regulations of the business. For some provincial companies provincial Departments assume both responsibilities. By and large, insurance legislation and government regulation have been well conceived and well administered in Canada. As new forms of investments, new types of policies and new problems have developed, amendments to the legislation have been enacted. (Table 2.44-2.47) Saving through life insurance had resulted in the gradual accumulation of more than \$8.2 billion in assets held on behalf of Canadian policyholders and annuitants at the end of 1960. In addition, assets





1 relating to the life companies' health insurance  
2 business amounted to about \$80 million. The assets  
3 held outside of Canada by Canadian companies on behalf  
4 of their external business amounted to \$2.8 billion.  
5 At the same time assets held in Canada by non-resident  
6 companies for the protection of Canadian policyholders  
7 amounted to \$2.3 billion. (Paras. 3.41-3.42;  
8 4.23-4.25)

9 2.9 These assets conform to the provisions of the  
10 Insurance Acts. Within the framework there exists ample  
11 room for a significant exercise of judgment by individual  
12 companies in the conduct of their investment operations  
13 and ample room for the life insurance industry to employ  
14 its funds through wide diversification, both as to  
15 category of asset and geographical area, for the  
16 financing of development within the Canadian economy.  
17 (Para. 4.14)

18 2.10 The Insurance Acts define certain broad  
19 categories of investment within which life insurance  
20 funds may be placed and impose certain additional  
21 limitations within some categories. They also define  
22 certain investments which are prohibited. The recogni-  
23 tion of the trustee nature of these funds, these  
24 restrictions have as their main objective the avoidance  
25 of undue risk, the limitation of concentration of economic  
26 power through stock ownership and the prohibition of  
27 loans to directors, officers or their families either  
28 directly or through corporations they control. The  
29 companies are allowed to have a maximum of 5 per cent  
30 of their assets that do not meet the specific



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1 eligibility tests in the Acts. Amendments made in  
2 1961 allow the setting up of segregated funds for  
3 policies the reserves on which vary in amount depending  
4 on the market value of the assets. In such funds the  
5 quantitative limitations on common stock or real estate  
6 investment do not apply but the limitation on non-  
7 specified investments is retained. (Paras. 4.9-4.17)  
8 2.11 During discussions with the federal authorities  
9 prior to the legislative amendments in 1961, two major  
10 changes were suggested but not adopted. The first  
11 concerns some relaxation in the 15 per cent limit on  
12 common stocks and the second a change in the year-end  
13 valuation standard. With regard to the first the  
14 companies felt that although they currently held much  
15 less than 15 per cent of their assets in common stocks,  
16 under appropriate market conditions the present limit  
17 might be too restrictive. They pointed out that some  
18 of the non-resident companies are even now finding  
19 the limit restrictive. With regard to the valuation  
20 standard it was suggested that amortized values be  
21 extended to municipal securities in Canada, the United  
22 States and the United Kingdom and that for corporate  
23 securities and shares the average of three most  
24 recent year-end market values be used. (Paras. 4.18-4.20)  
25 2.12 The introduction of the segregated fund  
26 provisions answered much of the problem presented by  
27 the 15 per cent common stock limit as far as the  
28 Canadian companies were concerned. The suggestion put  
29 forward regarding the valuation standard was not a  
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1 felt that some further relief from the constraints  
2 of year-end market valuation was desirable since any  
3 sharp temporary downward shift in market values that  
4 resulted in very substantial encroachment on surplus  
5 funds tended to produce inequities in the incidence  
6 of surplus distribution and led to unwarranted conclusions  
7 regarding surplus depletion. On the other hand there is  
8 a view that the use of a market value basis is more  
9 conducive of an active market policy. The Commission  
10 may wish to consider this question in the content of  
11 the capital market generally and particularly the market  
12 for common stocks. (Paras. 4.20-4.22)

13 2.13 The investment operations of the insurance  
14 companies play a very important role in supplying  
15 the capital needs of the Canadian economy. For  
16 example, in 1961 the companies' lending approvals for  
17 residential mortgage loans of \$600 million constituted  
18 44 per cent of all approvals for such loans; lending  
19 approvals of \$141 million for non-residential mortgages  
20 comprised 47 per cent of all institutional approvals;  
21 net purchases by the life companies of provincial  
22 bonds of \$132 million amounted to 14 per cent of all  
23 net new issues; net purchases of municipal bonds of  
24 \$47 million amounted to 18 per cent of all net new  
25 municipal issues; and net purchases of corporate  
26 and other bonds of \$77 million amounted to 38 per cent  
27 of all net new issues. However the life companies'  
28 increase in policy loans of \$15 million amounted to  
29 only 5 per cent of the increase in consumer credit  
30 outstanding. (Paras. 4.47-4.54)



1 This report was prepared by the Department of Finance, Canada, in 1961.  
2 It is based on the information available to the Department at that time.  
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2.14 Life insurance companies can only increase their overall investment by the net saving that they are able to attract. However, in addition to the annual increase in assets resulting from the net saving flow, the companies have for re-investment funds arising from the repayments on existing assets - assets which have either been redeemed or reached maturity - and assets which have been sold. The degree of total activity varies significantly as between individual companies but it would appear that gross investments by all companies is about 2 to 2½ times the net increase in assets. This produces a great impact on the capital market than the annual increase in assets suggests.

(Paras. 4.32-4.44)

2.15 The theory of life insurance investment is based on the nature of the liabilities assumed - the commitment to pay claims and benefits as they become due and the interest guarantees given on the moneys already received and to be received in the future. Life insurance protection must be absolutely reliable.

(Paras. 5.1-5.3)

2.16 Safety of principal is the first consideration. Life insurance funds must be invested in such a way that risk of loss is minimized. This is accomplished by careful selection of individual investments as to their credit-worthiness, that is, the ability to pay interest and to repay principal when due, and by widespread diversification of risk through investment in different categories of assets and in different geographical areas. (Para. 5.4)



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1 2.17 The second consideration is the investment  
2 of funds to yield as large an interest return as possible  
3 consistent with the required safety, so that the cost  
4 of insurance to policyholders may be as low as possible.  
5 For this reason, the life insurance companies are  
6 extremely sensitive to yields obtainable in the capital  
7 market. (Para. 5.5)

8 2.18 The diversification of life insurance assets  
9 held in Canada at the end of 1960 by category of asset  
10 was as follows: bonds 48.4 per cent, stocks 3.1 per cent,  
11 mortgages 37.6 per cent, real estate 3.6 per cent, policy  
12 loans 4.3 per cent and other assets 3.0 per cent. These,  
13 of course, are average figures and do not indicate  
14 the significant degree of deviation in the investment  
15 policy of individual companies. For example, among  
16 Canadian companies, bonds accounted for from 97 per cent  
17 to 26 per cent of invested assets, stocks from 12 per cent  
18 to nil, mortgages from 64 per cent to nil and real  
19 estate from 10 per cent to nil. (Paras. 4.25-4.31;  
20 5.45-5.52)

21 2.19 The diversification obtained by geographical  
22 area diffuses life insurance assets widely throughout  
23 the economy. Although life insurance companies are national  
24 concerns and policyholders look to the entire pool of  
25 assets for their security, the regional distribution  
26 of assets is quite close to the regional distribution  
27 of their liabilities. The assets and liabilities will  
28 change from year to year as assets respond to the avail-  
29 ability of investments and the liabilities to both new  
30 business and the aging of existing business.  
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ability of investments and the liabilities to both new

business and the aging of existing business.



2.20 The effect of monetary policy on the investment practice of the life insurance companies flows essentially from changing interest rate levels and relationships. The spectrum of investment is wide and, thus, has many exposures to changing interest rates. (Paras. 5.34-5.35)

2.21 Life insurance companies are responsive to change or expectation of near-term change in interest rate levels in at least four ways: (a) the direction of the investment flow; (b) the liquidity of existing assets; (c) the generation of cash for investment; and (d) the degree of forward commitments.

(Paras. 5.36-5.41)

2.22 Most life insurance companies are desirous of assuming a minimum of exchange rate risk in their investment operations. In general, the attempt is made to match foreign currency assets to foreign currency liabilities. In some countries this is virtually a requirement. Some companies have been prepared, however, to accept some exchange risk from time to time. (Paras. 5.42-5.44)

2.23 There has been a steady upward trend in both the gross and net rates of interest earned over the last 10 years. In varying degrees this has applied to all categories of asset. Investment expense as a per cent of assets has decreased.

(Paras. 5.53-5.55)

2.24 The distribution of assets by category for Canadian and United States companies is not significantly different. Comparison with the United Kingdom companies,



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1        however, shows that the latter place more emphasis  
2        on common stocks and real estate and less on mortgages.  
3        The reason would appear to be three-fold:

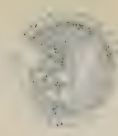
4                (a) In the United Kingdom there is almost  
5                a complete lack of restriction on the  
6                powers of investment and although at the  
7                year-end stock exchange securities are  
8                usually taken at market values, and other  
9                assets at cost, the companies' actuaries  
10               have much more freedom in varying the interest  
11               rate basis of accumulation for the actuarial  
12               reserves.

13               (b) In the United Kingdom guaranteed cash  
14               values are not universally available as they  
15               are on this continent. This allows greater  
16               freedom in valuation. The practice of  
17               disbursing dividends in the form of  
18               reversionary additions to the sum assured  
19               allows the funds built up for this purpose  
20               to form a cushion against any temporary  
21               recession in market values.

22               (c) In the United Kingdom mortgages are regarded  
23               as relatively short-term and yields are not  
24               so attractive, thus forcing insurance funds  
25               into equities and real estate.

26                                (Paras. 5.61-5.62;  
27    5.69-5.83)

28        2,25        The life insurance companies in Canada make  
29        exhaustive reports to the Superintendents of Insurance  
30        each year. These are summarized and published by the



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(a) In the United Kingdom there is almost



1 Superintendents. Companies, of course, present  
2 statements of their own affairs at annual meetings.  
3 At least once each year the premium notices or receipts  
4 of Canadian federally-registered companies must contain  
5 a statement of the participating policyholders' right  
6 to attend and to vote in person or by proxy at such  
7 meetings. (Paras. 3.49-3.50)  
8 2.26 The life insurance business is a complicated  
9 business involving as it does so many forward judgments  
10 relative to mortality, interest and expense.  
11 Comparison as between companies requires exhaustive  
12 and competent analysis. No easy and satisfactory method  
13 has yet been found to produce a simple index or indices  
14 for comparative purposes. Comparison of premium levels,  
15 dividends and cash surrender values for strictly  
16 comparable policies in different companies affords the  
17 easiest and best method but even it can only be used  
18 with some qualification. Strictly comparable policies  
19 are difficult to find and any comparison of this nature  
20 may fail to take into account important policy provisions.  
21 Important considerations such as service and dividend  
22 distribution policy lie beyond the scope of mechanistic  
23 comparison. (Paras. 3.51-3.54)  
24 2.27 The Association believes that there is the  
25 highest need for a unification of monetary, fiscal,  
26 debt management and exchange rate policies. When they  
27 are co-ordinated, each derives strength from the others.  
28 When not co-ordinated, no one policy, and particularly  
29 monetary policy, can in the long run make up for  
30 shortcomings in the other policies. (Paras. 6.5-6.8)



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1 2.28 The harmony and co-ordination to be desired  
2 in financial policy leads to the conclusion that  
3 government must accept ultimate responsibility for  
4 monetary policy. The initiation and implementation  
5 of monetary policy, however, should be the responsibility  
6 of the Bank of Canada and it should be accorded wide  
7 latitude until such time as the views of government  
8 and the Governor cannot be reconciled, at which time  
9 government views should be set forth in a directive.  
10 If the Governor cannot accept such directive, he  
11 should feel called upon to resign, thus bringing such  
12 differences to public attention. Such a brake on any  
13 possible abuse of the machinery of credit creation for  
14 political ends is a necessary safeguard. The Association  
15 suggests that the Bank of Canada Act be amended to make  
16 this position abundantly clear. (Paras. 6.9-6.11)

17 2.29 The Association believes that the Bank of  
18 Canada should seek to carry out its monetary policy  
19 by varying the money supply, thus changing interest  
20 levels and influencing liquidity. In this way the Bank  
21 should seek through a responsive capital market to  
22 augment or dampen the rate of economic growth, contribute  
23 to price stability and act as a balance wheel in  
24 regulating economic progress. (Paras. 6.12-6.13)

25 2.30 The Association believes, however, that there  
26 is an important limitation to domestically-initiated  
27 changes in interest rate levels in the degree to which  
28 the Canadian capital market is oriented to that of  
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1 short-term funds across the border and affect the balance  
2 of payments. (Para. 6.14)

3 2.31 The Association believes that if the  
4 operations of the capital market from time to time  
5 lead to distortion or an uneven or undesirable flow of  
6 funds to ultimate users and correctives are deemed  
7 to be necessary, the problem should be tackled directly  
8 by government through temporary regulations rather than  
9 by attempting to bring non-bank financial intermediaries  
10 under some form of continuing relationship with the  
11 central bank. (Para. 6.12)

12 2.32 The Association feels, however, that in  
13 peace-time at least, there is rarely a case for the  
14 extension of direct controls throughout the economy  
15 and that they should be considered only as a last resort.  
16 Excesses of a character that need to be controlled by this  
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23 2.33 Difficulties that may be experienced from  
24 time to time by certain borrowers or classes of borrowers  
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1 of investment. The Association believes that such  
2 suggestions are not in the best interest of either  
3 policyholders or the nation. (Para. 6.25)

4 2.34 There never is a time when all borrowing  
5 "needs" can be met from the accrued and accruing savings  
6 of the nation. One of the functions of the capital  
7 market is to establish priorities. This method may have  
8 its imperfections but it has never been proven that the  
9 substitution of government direction for the multitude

10 of decisions in the market-place would result in a  
11 more effective allocation. (Paras. 6.26-6.27)

12 2.35 For example, the life insurance companies,  
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14 (Paras. 6.26-6.27)

15 The wide diversification of investment which they have  
16 achieved has been illustrated. Any regulations as to  
17 minimum proportions in any one category of asset must  
18 reduce the amount of funds that can be made available  
19 for other purposes. Direction of this kind is almost  
20 certain to lower arbitrarily the investment returns  
21 of those particular savers who choose to save through  
22 life insurance. In the long run, such direction would  
23 affect the life insurance companies in their competition  
24 for savings. In face, once introduced, the danger  
25 would be that the direction would be gradually increased  
26 and extended to the point where the personal savings  
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31 2.36 The Association believes that monetary  
32 policyholders would be under government control.  
33 policy to be effective must operate against a background  
34 of confidence - confidence in government policy in all  
35 The Association believes





of investment. The Association believes that such suggestions are not in the best interest of either policyholders or the nation. (Para. 6.25)

2.34 There never is a time when all borrowing

"needs" can be met from the accrued and accruing savings

of the nation. One of the functions of the capital

market is to establish priorities. This method may have

its imperfections but it has never been proven that the

substitution of government direction for the multitude

of individual decisions is a better method.

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1 its aspects and confidence in reasonable stability in  
2 the level of prices. Lack of confidence can stultify  
3 the best efforts of monetary management by making the  
4 market unresponsive to the changes it desires to bring  
5 about. Confidence is enhanced by public understanding,  
6 but the Association feels that statements by the Bank  
7 of Canada should be confined to considerations of monetary  
8 policy and its implementation. The Bank, in the  
9 Association's view, should give the fullest public  
10 explanation of what it has done, should keep its  
11 emerging views and intent constantly before its  
12 responsible Minister but other than that it should be  
13 able to pursue its objectives in reasonable anonymity.

14 (Paras. 6.30-6.33)

15 2.37 The Association finds it difficult to believe  
16 that there is any great matter of principle involved  
17 in the discussion concerning the relative merits of the  
18 floating re-discount rate and the stated re-discount  
19 rate. It suggests that the treatment of the rate is  
20 essentially an operating procedure and that it should  
21 be possible for the question to be resolved to the  
22 satisfaction of the central bank, the chartered banks  
23 and the financial community and removed as a bone  
24 of contention. To the extent that changes in the re-  
25 discount rate can be made meaningful in terms of  
26 signalling changes in the direction of monetary policy  
27 so much the better. (Para. 6.37)

28 2.38 The maintenance of price stability or the  
29 avoidance of inflation is not only of prime importance  
30 to life insurance policyholders in safeguarding the values



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1 of their policies and the companies' control of  
2 operating costs on their behalf but also to all citizens  
3 who are beginning to realize that inflation can wipe  
4 out their savings just as effectively as prolonged  
5 unemployment. (Paras. 6.38-6.41)

6 2.39 The problem of inflation arises from an  
7 imbalance in our economic affairs. Although it  
8 manifests itself as a monetary phenomenon in the sense  
9 of rising prices, its roots lie much deeper. No ready  
10 cure is available. Just as combatting recession requires  
11 the use of a broad arsenal of weapons, so combatting  
12 inflation requires an equally broad attack, not only  
13 on the monetary front, but also in fiscal matters and  
14 in economic policy generally. (Para. 6.42)

15 2.40 The first prerequisite is a determination  
16 on the part of government to place reasonable price  
17 stability along with a high level of employment and  
18 income as the two major objectives of public policy.  
19 The second prerequisite should be a willingness to use  
20 all paths which will advance the economy toward that  
21 goal. Monetary policy, although in the forefront  
22 of restraint at these times, needs powerful support  
23 from fiscal policy and from the public generally.

24 (Paras 6.43-6.44)

25 2.41 With relation to fiscal policy, the  
26 Association is concerned about the substantial commit-  
27 ments that governments have already made in the welfare  
28 area and with suggestions for further increases. The  
29 proportion of national production used for these  
30 purposes has risen greatly in the post-war years.



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1 In particular, the Association is concerned about  
2 suggestions that an additional compulsory pension plan  
3 should be added to the present universal, flat benefit  
4 Old Age Security plan. (Paras. 6.46 and 6.53)  
5 2.42 The present Old Age Security plan was  
6 established in 1952 with the support of all political  
7 parties and many other interested groups including the  
8 life insurance companies. This plan has many advantages.  
9 Because it pays the same benefit to everyone aged 70  
10 and over, it proportionately helps most of the lower  
11 earners whose need is greatest. It is simple and  
12 inexpensive to administer. Increases in benefit have  
13 been made on three occasions and the increase immediately  
14 reflected in payments to the recipients. The present  
15 \$65 a month benefit is more generous relative to income  
16 than the average benefit to the aged provided under  
17 the United States Social Security programme. If money  
18 is available for further increases in welfare benefits,  
19 the Association feels that first priority should be  
20 given to such groups as those unable to work because  
21 of permanent disability and widows with dependent  
22 children by extending to them the advantages of flat,  
23 uniform, basic benefits as a matter of right.

24 (Paras. 6.47-6.52  
25 and 6.59)

26 2.43 The Association is opposed to the addition  
27 of a government-operated plan providing for graduated  
28 benefits on top of our present Old Age Security plan.  
29 No government plan of which we are aware, including the  
30 United States plan, equates an individual's benefits





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(Pages 6.50 and 6.52)

2.47 The Association is opposed to the addition of a government-operated plan providing for graduated benefits on top of our present Old Age Security plan. No government plan of which we are aware, including the United States plan, equates an individual's benefit



1 to his contributions. Even if it tried to do so,  
2 irresistible pressures would arise to borrow from the  
3 funds required for future benefit payments in order to  
4 make current payments. This transfers heavy costs to  
5 future generations. (Paras. 6.55-6.58)

6 2.44 The continued use of existing pension  
7 facilities, subject to minimum requirements of  
8 "portability" and benefit level, would avoid the weak-  
9 nesses inherent in a government-operated plan and would  
10 ensure that fund would be accumulated for each contributor  
11 from which to pay the benefits promised to him. The  
12 investment of these funds would continue to be available  
13 to finance Canada's growing economy.

14 (Paras. 6.60-6.61)

15 2.45 The capital market in Canada has been growing  
16 and is becoming more fully developed over the years.  
17 The Association feels that the market today, under  
18 normal circumstances, is reasonably responsive to  
19 changing supply-demand relationships and is sufficiently  
20 broad, sufficiently flexible and sufficiently cohesive  
21 to allow monetary policy to be reasonably effective.

22 (Paras. 7.1 and 7.5)

23 2.46 The development of a capital market is basically  
24 an evolutionary process. This development is aided if  
25 the market contains as few barriers or hindrances as  
26 possible to the free flow of funds, thus allowing the  
27 greatest freedom for interest rates to reflect the  
28 changing pressures of supply and demand.

29 (Paras. 7.2-7.4)

30 2.47 Although the Association feels that generally



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(Hansard, 6.50-6.51)

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the market contains as few barriers or hindrances as

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greatest freedom for interest rates to reflect the

ongoing pressures of supply and demand.

(Hansard, 7.27-7.28)

Although the Association feels that generally





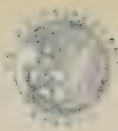
1 its members are well served by the existing machinery  
2 of the market, it would offer the following observations:

3 (a) The present size of the bond market is  
4 such that the companies believe that neither  
5 the services of the so-called bond jobber  
6 nor the formation of a bond exchange would  
7 be particularly useful. (Paras. 7.7-7.9)

8 (b) A prime objective of the investment  
9 dealer should be the prompt and full  
10 distribution of a new issue. Many companies  
11 in the Association's membership have  
12 difficulty from time to time in getting  
13 as large a participation as they might wish  
14 in the first instance. They suggest the  
15 provision of earlier information concerning  
16 a new issue and a prompt delivery date  
17 would assist in early and complete distribution.

18 (Para. 7.10)

19 (c) The life insurance companies have long  
20 been substantial buyers of bonds of credit-  
21 worthy municipalities. The fact that many  
22 smaller municipalities are not too well-known  
23 seems to limit them in obtaining funds. To  
24 the extent that municipal governments cannot  
25 borrow directly, it is suggested that some form  
26 of pooling arrangement through provincial  
27 sponsorship is the only effective way of  
28 adding the additional credit to allow access  
29 to the capital market. Care must be exercised,  
30 however, to ensure that such sponsorship through



of the market, it would offer the following observations:

(a) The present size of the bond market is such that the companies believe that neither the services of the so-called bond jobber nor the formation of a bond exchange would be particularly useful. (Paras. 7.7-7.9)

(b) A firm dealer should be the prompt and full distribution of a new issue. Many companies in the Association's membership have difficulty from time to time in getting as large a participation as they might wish in the first instance. They suggest the provision of earlier information concerning a new issue and a prompt delivery date would assist in early and complete distribution.

(c) The life insurance companies have long been substantial buyers of bonds of credit-worthy municipalities. The fact that many smaller municipalities are not too well-known seems to limit them in obtaining funds. To the extent that municipal governments cannot borrow directly, it is suggested that, as of pooling arrangement through providing the sponsorship is the only effective way of adding the additional credit to

to the capital market. (Para. 8.1-8.2) However, to ensure that such a plan generally



1 the provision of easier credit does not lead  
2 to the accumulation of municipal debts that  
3 will prove burdensome to repay.

4 (Para. 7.11)

5 (d) Small, new and high-risk companies have  
6 difficulty in raising both debt and equity  
7 capital. Their obligations or shares are far  
8 from investment grade. The financing of such  
9 new businesses today requires an amount of  
10 money that few investors can afford to place  
11 on one risk. Privately-financed development  
12 corporations participated in by large groups  
13 of investors might be a practical way of  
14 surmounting this difficulty. It would allow  
15 a spread of risk through group participation  
16 that would be impossible of attainment by any  
17 one investor. Such a development corporation  
18 might provide both debt and equity capital  
19 and assist in the provision of counsel.

20 (Paras. 7.12-7.16)

21 (e) The further development of a secondary  
22 mortgage market which would broaden the band  
23 of investors interested in mortgages and  
24 increase the liquidity of mortgage investments  
25 would be desirable. The successive sale of  
26 blocks of N.H.A. mortgages by Central Mortgage  
27 and Housing Corporation is helping to create  
28 this. In Canada, however, it is difficult  
29 as yet to visualize enough activity to  
30 create a full-fledged secondary mortgage



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(Para. 7.12)

(e) The further development of a secondary mortgage market which would broaden the band of investors interested in mortgages and increase the liquidity of mortgage investment would be desirable. The successive sale of blocks of N.H.A. mortgages by Central Mortgage and Housing Corporation is helping to create this. In Canada, however, it is difficult as yet to visualize enough activity to create a full-fledged secondary mortgage



1 marketing system. The mortgage departments  
2 of the banks, and trust and loan companies  
3 seem to offer the best immediate facilities,  
4 further strengthened in the long run by the  
5 development of a mortgage banking system  
6 similar to that in the United States.

7 (Paras. 7.17-7.25)

8 (f) There have been suggestions over the  
9 years that N.H.A. mortgage insurance be  
10 made to apply to loans on existing houses.  
11 It is said that this would broaden the market  
12 for new houses, bring about a more economic  
13 use of existing space and reduce the need  
14 for second mortgage financing. On the other  
15 hand, it could result in less money being  
16 available from private sources for new homes,  
17 raise the price of existing houses and  
18 monetize a large volume of past savings  
19 and appreciation in values, and open the way  
20 for a considerable volume of dissaving. If  
21 such a course were to be considered, it would  
22 be essential, in the Association's view, that  
23 the insured mortgage be limited to a bona fide  
24 purchaser of a single house who intends to  
25 reside in it and the loan limited to, say,  
26 80 per cent of a lending value and subject  
27 to an amortization period that recognizes  
28 fully the age of the house, its location and  
29 its remaining economic life.

30 (Paras. 7.26-7.27)



...of the banks, and trust and loan companies, seem to offer the best immediate facilities, further strengthened in the long run by the development of a mortgage banking system similar to that in the United States.

(FARMER, 1927, p. 10)

(f) There have been suggestions over the years that N.H.A. mortgage insurance be made to apply to loans on existing houses. It is said that this would broaden the market for new houses, bring about a more economic use of existing space and reduce the need for second mortgage financing. On the other hand, it could result in less money being available from private sources for new homes, raise the price of existing houses and monetize a large volume of past savings and appreciation in values, and open the way for a considerable volume of dissaving. If such a course were to be considered, it would be essential, in the Association's view, that the insured mortgage be limited to a bona fide purchaser of a single house who intends to reside in it and the loan limited to, say, 80 per cent of a lending value and subject to an amortization period that recognizes fully the age of the house, its location and its remaining economic life.

(FARMER, 1927, p. 10)





2.48 Years ago it was deemed desirable to place restrictions on the investments of life insurance companies and to supervise their activities in the public interest. The life insurance companies compete with other collectors of savings, particularly in the area of individual and group retirement plans.

(Paras. 7.39-7.42)

2.49 The Association feels that uninsured pension plans are equally long-term and that their activities and particularly their continued solvency is equally important and that they should be brought under government supervision of a somewhat similar character and purpose. They believe, too, that all investment vehicles through which individual accumulation under "registered retirement savings plans" takes place should be the subject of some minimum standards of government supervision.

(Para. 7.43)

2.50 The Association believes that the conditions which will allow the life insurance companies to make a maximum contribution toward the accumulation of savings and their constructive employment in the Canadian economy are:

- (a) Reasonable stability in the purchasing of the dollar and the preservation of savings.
- (a) An economic climate favourable to growth and a level of taxation which does not discourage saving.
- (c) A social and political climate favourable to private individual and group action in providing for personal financial security.



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- (b) An economic climate favourable to growth and a level of taxation which does not...
- (c) A social and political climate favourable to private individual and group action in providing for personal financial security.



- 1 (d) A basic floor of security, as warranted by  
2 the nation's ability to provide it, for the  
3 aged, widows and orphans, the permanently  
4 disabled and the temporarily unemployed.
- 5 (e) Consistent protection of property rights  
6 under law to ensure stability and confidence  
7 in financial obligations.
- 8 (f) General freedom and flexibility in investment  
9 within a minimum of statutory limitations  
10 to make possible implementation of long-term  
11 guarantees.
- 12 (g) Sound domestic environment within which all  
13 life insurance companies can operate for the  
14 benefit of Canadians and which will also  
15 facilitate effective operation of Canadian  
16 companies abroad. (Para. 7.44)
- 17  
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SECTION 3

DESCRIPTION OF THE INDUSTRY

STRUCTURE OF THE INDUSTRY

3.1 At the end of 1960 life insurance was provided in Canada by 99 companies registered under the federal insurance laws; by 22 Canadian companies operating under provincial charters without federal registry; and by a number of fraternal benefit societies. This submission relates only to the life insurance companies.

3.2 The federally-registered companies had in force in Canada \$45 billion of life insurance or 95 per cent of that in force with all life insurance companies at the end of 1960. The provincial companies had \$2 billion in force. Since 1935 the provincial companies have increased their share of the total from 1 per cent to 5 per cent (see Table 3.a).

Table 3.a

Life Insurance in Force in Canada \*

	<u>End of 1935</u>		<u>End of 1960</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
	(000,000)		(000,000)	
Federally-registered companies	\$6,259	99	\$44,649	95
Provincial companies	88	1	2,218	5
	<u>\$6,347</u>	<u>100</u>	<u>\$46,867</u>	<u>100</u>

\* Fraternal benefit societies had \$989 million of life insurance in force at the end of 1960.

3.3 At the end of 1960 the 99 federally-registered companies included 36 Canadian, 43 United States, 14 British, two German, two Swiss, one Australian and one



# STRUCTURE OF THE INDUSTRY

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Table 3.a

## Life Insurance in Force in Canada

	End of 1955		End of 1960	
	Amount (000,000)	% of Total	Amount (000,000)	% of Total
Registered companies	\$6,259	99	\$44,649	95
Provincial companies	83	1	2,218	5
	\$6,342	100	\$46,867	100

\* Fraternal benefit societies had \$989 million of

life insurance in force at the end of 1960.

At the end of 1960 the 99 federally-registered

companies included 36 Canadian, 47 United States, 14

British, two German, two Swiss, one Australian and one



of Netherlands origin. The number of companies has expanded significantly in the last 25 years. In 1935 there were 61 federally-registered companies. The origin of the companies and their respective shares of life insurance in force in Canada in 1935 and 1960 are shown in Table s.b.

Table 3.b

Life Insurance Companies in Canada  
(Federally-Registered)

	<u>End of 1935</u>		<u>End of 1960</u>	
	Number of Companies	% of Life Insurance in Force	Number of Companies	% of Life Insurance in Force
Canadian	27	66.5	36	68.1
United States	20	31.5	43	28.2
British	13	1.5	14	3.5
Netherlands	-	-	1	.1
Swiss	-	-	2	.1
Australian	1	.5	1	-
German	-	-	2	-
	<u>61</u>	<u>100.0</u>	<u>99</u>	<u>100.0</u>

3.4 Fourteen of the Canadian companies do business outside of Canada. The \$13 billion of life insurance they have in force abroad equals 42 per cent of their total business and 28 per cent of the total business of all Canadian companies. Seventy per cent of this business outside of Canada is on the lives of policyholders in the United States, 16 per cent on persons in the British Isles, 2 per cent on Asians, 6 per cent on Africans, and 6 per cent on persons in the Caribbean area and Latin America.

3.5 Before World War II Canadian companies actively carried on business in some 64 different countries and territories. This number is now reduced to just over 30. During the War business was suspended in enemy and enemy-occupied countries and



expanded significantly in the last 25 years. In 1955 there were 61 federally-registered companies. The origin of the companies and their respective shares of life insurance in force in Canada in 1955 and 1960 are shown in Table A.1.

Life Insurance Companies in Canada

End of 1960		End of 1955	
Number of % of Life Insurance in Companies		Number of % of Life Insurance in Companies	
Canadian	27	66.5	36
United States	20	31.5	43
British	13	1.5	14
Netherlands	-	-	1
Swiss	-	-	2
German	-	-	2
	61	100.0	99
			100.0

3.4 Fourteen of the Canadian companies do business outside of Canada. The \$15 billion of life insurance they have in force abroad equals 42 per cent of their total business and 28 per cent of the total business of all Canadian companies. Seventy per cent of this business outside of Canada is on the lives of policyholders in the United States, 16 per cent on persons in the British Isles, 8 per cent on Asians, 6 per cent on Africans, and 6 per cent on persons in the Caribbean.

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1 in some it has not been resumed. Since the War  
2 legislation governing the life insurance business in  
3 certain foreign countries has resulted in a withdrawal  
4 by the Canadian companies from those markets. Despite  
5 this, the business of the Canadian companies in force  
6 outside of Canada is still growing strongly - an  
7 acknowledgement of the reputation of these companies  
8 and their competitiveness in outside markets.

9 3.6 The life insurance companies had about 40,500  
10 full-time personnel in their service in Canada at the  
11 end of 1960 - about 25,500 in administrative work and  
12 approximately 15,000 full-time field representatives.  
13 The operations of the Canadian companies outside  
14 Canada provided employment for more than 3,500  
15 administrative and branch office personnel and 4,000  
16 full-time field representatives in those countries  
17 where they are carrying on business. Of course, a  
18 large part of the supervisory and administrative work  
19 for these foreign branches is carried on in Canada.  
20 Many of the non-resident companies maintain Administra-  
21 tive offices in Canada for their Canadian business  
22 which employ Canadian personnel.

23 3.7 The comparable figures are not available  
24 for 1935 but in 1939, 19,700 Canadians were in the employ  
25 of the life insurance companies in Canada. During the  
26 last 20 years, personnel has doubled while the amount  
27 of life insurance in force increased seven-fold,  
28 annuities in force increased forty times, the annual  
29 amount of life insurance purchased rose ten-fold, annual  
30 benefits, including health insurance benefits, increased



in some it has not been resumed. Since the War legislation governing the life insurance business in certain foreign countries has resulted in a withdrawal by the Canadian companies from those markets. Despite this, the business of the Canadian companies in force outside of Canada is still growing strongly - an acknowledgement of the reputation of these companies and their competitiveness in outside markets.

3.6 The life insurance companies had about 40,500 full-time personnel in their service in Canada at the end of 1950 - about 25,500 in administrative work and approximately 15,000 full-time field representatives. The operations of the Canadian companies outside Canada provided employment for more than 5,500 administrative and branch office personnel and 4,000 full-time field representatives in those countries where they are carrying on business. Of course, a large part of the supervisory and administrative work for these foreign branches is carried on in Canada. Many of the non-resident companies maintain Administrative offices in Canada for their Canadian business.

3.7 The comparable figures are not available

for 1945 but in 1939, 19,700 Canadians were in the employ of the life insurance companies in Canada. During the last 20 years, personnel has doubled while the amount of life insurance in force increased seven-fold, annuities in force increased forty times, the annual amount of life insurance purchased rose ten-fold, annuities, including health insurance benefits, increased



four times and assets increased  $3\frac{3}{4}$  times.

OWNERSHIP OF THE LIFE INSURANCE  
COMPANIES

3.8 Table 3.c shows the number of Canadian life insurance companies doing business in Canada at the end of 1960 that were mutual companies - that is, companies owned and controlled by policyholders - and the number that were companies with capital stock held by shareholders.

Table 3.c

Mutual and Stock Life Insurance Companies  
in Canada

End of 1960

	<u>Mutual</u>	<u>Stock</u>	<u>Total</u>
Canadian companies			
Federally-registered	9	27 *	36
Provincial	11	11	22
Non-resident companies	21	42	63

\* Five of these were in the process of becoming mutual.

3.9 Federal law requires that at least one-third of the directors of a Canadian stock company issuing participating policies must be elected by the holders of the company's participating policies and no shareholder is eligible to be a policyholders' director. Also, the law effectively limits dividends to shareholders by stipulating the proportion of "profits" on participating insurance \* that must be retained for participating policyholders. These proportions are on a graded scale; policyholders must be credited with at least 10 per cent of the profits on participating insurance. \* Participating insurance represents more than 60 per cent of the life insurance in force in Canada with stock companies.

Assets increased 3 1/2 times.

# SHIP ON THE INSURANCE

3.8 Table 3.8 shows the number of Canadian

the end of 1960 that were mutual companies - that

is, companies owned and controlled by policyholders - and the number that were companies with capital stock held by shareholders.

Table 3.8

Mutual and Stock Life Insurance Companies

End of 1960

Total	Stock	Mutual
38	27	9
28	11	17
66	48	18

\* Five of these were in the process of becoming mutual

3.9 Federal law requires that at least one-third

of the directors of a Canadian stock company residing

participating policies must be elected by the holders

of the company's participating policies and no

shareholder is eligible to be a policyholder.

director. Also, the law effectively limits dividends

to shareholders by stipulating the proportion of profit

participating insurance \* that must be retained for

participating policyholders. These proportions are in

a graded scale; policyholders must be credited with at

\* Participating insurance reserves more than 10





1 least 90 per cent of such profits in small companies  
2 and at least 97½ per cent in large companies.

3 3.10 The controlling interest in twelve of the  
4 38 Canadian stock life insurance companies today lies  
5 outside Canada (two in Great Britain, five in Continental  
6 Europe and five in the United States). These twelve  
7 companies had 6 per cent of the life insurance in force  
8 with all Canadian companies as at the end of 1960. Four  
9 of these companies were formed substantially on the  
10 basis of foreign capital. In the case of the remaining  
11 eight companies, control of one passed out of Canada in  
12 1929 while control of the remaining seven passed out  
13 of Canada since 1954.

14 3.11 The Canadian and British Insurance Companies  
15 Act prohibits a company from investing its life insurance  
16 funds in the shares of another life insurance company.  
17 This prohibition has reduced the number of potential  
18 Canadian purchasers of the controlling interest in life  
19 insurance companies where it is "up for sale" and may  
20 have militated against the retention of ownership of  
21 Canadian companies in Canada.

22 3.12 In 1957, however, in order to help overcome  
23 this problem, federal legislation was enacted to permit  
24 Canadian stock companies to mutualize, that is, to  
25 acquire their own shares. Five companies have now done  
26 this or are in the process of doing so. At the end of  
27 1960, 59 per cent of the life insurance in force with  
28 Canadian companies was with mutual companies or  
29 companies that shortly will be mutual.

30 3.13 Twenty-five Canadian companies have entered

least 90 per cent of such profits in small companies and at least 97½ per cent in large companies.

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38 Canadian stock life insurance companies today lies outside Canada (two in Great Britain, five in Continental

Europe and five in the United States). These twelve

companies had 6 per cent of the life insurance in force with all Canadian companies as at the end of 1960. Four

of these companies were formed substantially on the

basis of foreign capital. In the case of the remaining

eight companies, control of one passed out of Canada in

1929 while control of the remaining seven passed out

of Canada since 1954.

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this or are in the process of doing so. At the end of

1960, 59 per cent of the life insurance in force with

Canadian companies was with mutual companies or

companies that shortly will be mutual.

3.13 Twenty-five Canadian companies have entered



1 the life insurance field between 1935 and 1960. Because  
2 of the particular importance of adequate financing for  
3 the protection of policyholders in the early years of a  
4 new life insurance company, fifteen of these have been  
5 stock companies and of the ten mutual companies all  
6 were either reorganized fraternal benefit societies  
7 or affiliates of non-life insurance or other financial  
8 institutions.

9 3.14: Recently a Canadian stock company took over  
10 the business of a Canadian mutual company with the  
11 approval of the latter's policyholders and the Treasury  
12 Board. This is the first merger involving Canadian  
13 companies since 1935. In view of the influx of new  
14 companies and the mutualization of some stock companies  
15 it may be said that on the whole there has been a marked  
16 trend toward wider dispersion of the overall ownership  
17 of the life insurance industry.

18  
19 BUSINESS IN FORCE

20 Life Insurance

21 3.15: At the end of 1960 Canadians owned \$47 billion  
22 of life insurance, almost eight times the 1935 amount.  
23 Between 1935 and the outbreak of World War II, life  
24 insurance grew slowly. Since then the total has  
25 increased an average of 11 per cent per year. The  
26 growth of life insurance in force is set out in  
27 Table 3.d.





the life insurance field between 1955 and 1960. Because of the particular importance of adequate financing for the protection of policyholders in the early years of a new life insurance company, fifteen of these have been stock companies and of the ten mutual companies all were either reorganized fraternal benefit societies or affiliates of non-life insurance or other financial institutions.

2.14. Recently a Canadian stock company took over the business of a Canadian mutual company with the approval of the latter's policyholders and the Treasury Board. This is the first merger involving Canadian companies since 1955. In view of the influx of new companies and the mutualization of some stock companies it may be said that on the whole there has been a marked trend toward wider dispersion of the overall ownership of the life insurance industry.

#### BUSINESS IN FORCE

##### Life Insurance

2.15. At the end of 1960 Canadians owned 477 billion of life insurance, almost eight times the 1955 amount. Life insurance has grown slowly. Since then the total has increased an average of 11 per cent per year. The growth of life insurance in force is set out in

Table 2.4.

Table 3.d

Life Insurance in Force in Canada

<u>End of Year</u>	<u>Amount in Force (000,000)</u>	<u>Individual</u>		<u>Group</u>	
		<u>Amount (000,000)</u>	<u>% of Total</u>	<u>Amount (000,000)</u>	<u>% of Total</u>
1935	\$ 6,347	\$ 5,836	92	\$ 511	8
1940	7,041	6,310	90	731	10
1945	9,964	8,894	89	1,070	11
1950	16,229	13,614	84	2,615	16
1955	26,624	20,271	76	6,353	24
1960	46,867	32,128	68	14,739	32

- 3.16 A factor in this growth has been group insurance. As Table 3.d indicates, life insurance transacted on a group basis represented 32% of the total in force at the end of 1960 while that acquired on an individual basis equalled 68%. In 1935 group insurance represented 8%. In 1960, 86% of those employed in Canadian industry were in firms with a group insurance plan.
- 3.17 In recent years some organizations in the savings and consumer credit field have added a life insurance feature to the financial arrangements offered their customers. At the end of 1960, 19% of the group insurance in force covered individuals who had entered into such special credit or savings plans.
- 3.18 About three out of every four Canadian families own life insurance. The average amount owned per household at the end of 1960 was about \$10,400. The average varied from \$6,400 in the Atlantic Provinces to \$12,400 in Ontario.
- 3.19 A principal function of life insurance is to protect families against the cessation of earnings at the death of the head of the family. An important test of the adequacy of life insurance protection is to relate the amount of such protection to earned income - on an individual or national basis.

Table 3.4

Life Insurance in Force in Canada

End of Year	Amount in Force	Individual		Group	
		Amount	\$ of Total	Amount	\$ of Total
1935	\$ 5,347	\$ 5,636	92	\$ 211	8
1940	7,041	8,310	90	732	10
1945	9,964	8,894	89	1,070	11
1950	16,229	13,674	84	2,555	16
1955	26,624	20,271	76	6,353	24
1960	46,867	32,128	68	14,739	32

A factor in this growth has been group insurance. As Table 3.4

indicates, life insurance transacted on a group basis represented

32% of the total in force at the end of 1960 while that required on an

individual basis equalled 68%. In 1935 group insurance represented 8%.

In 1960, 86% of those employed in Canadian industry were in firms

with a group insurance plan.

In recent years some organizations in the savings and consumer credit

field have added a life insurance feature to the financial arrange-

ments offered their customers. At the end of 1960, 12% of the group

insurance in force covered individuals who had entered into such

special credit or savings plans.

About three out of every four Canadian families own life insurance.

The average amount owned per household at the end of 1960 was about

\$10,400. The average varied from \$6,400 in the Atlantic Provinces

to \$12,400 in Ontario.

A principal function of life insurance is to protect families against

the cessation of earnings at the death of the head of the family.

An important test of the adequacy of life insurance protection is to

relate the amount of such protection to earned income - on an

individual or national basis.



- 3.20 In 1960 Canadians held life insurance in an amount 2.2 times their total wages, salaries and the earnings of the self-employed. The corresponding ratio in the United States was just over 1.7 times.\* Table 3.e illustrates the trend in the Canadian ratio since 1920.

Table 3.e

Ratio of Life Insurance to Earnings in Canada

<u>Year</u>	<u>Life Insurance in Force - End of Year</u> (000,000)	<u>Ratio to Wages, Salaries and Self-Employed Income during Year</u>
1920	\$ 2,675	1.0 (est.)
1925	4,212	1.4 (est.)
1930	6,588	1.8
1935	6,347	2.4
1940	7,041	1.8
1945	9,964	1.3
1950	16,229	1.4
1955	26,624	1.6
1960	46,867	2.2

- 3.21 As indicated in Table 3.f, in 1960 the ratio of life insurance owned to total earned income in the ten provinces ranged from 1.1 to 1 in Newfoundland to 2.5 to 1 in Quebec. However, seven of the provinces were within a narrow range, indicating a fairly close relationship between life insurance in force and earned income.

Table 3.f

Ratio of Life Insurance to Earnings by Province - 1960

<u>Province</u>	<u>Life Insurance in Force - End of Year</u> (000,000)	<u>Ratio to Wages, Salaries and Self-Employed Income during Year</u>
Newfoundland	\$ 342	1.1
Prince Edward Island	126	1.8
Nova Scotia	1,330	2.1
New Brunswick	918	2.0
Quebec	13,534	2.5
Ontario	19,913	2.2
Manitoba	1,995	1.8
Saskatchewan	1,442	1.4
Alberta	2,978	1.8
British Columbia	3,920	1.7

3.22 Annuities

There were 649,000 annuity contracts or certificates in force with life insurance companies in Canada at the end of 1960. These provide

\* This ratio is based on private life insurance and therefore excludes the survivorship benefits provided under the public Old-Age, Survivors, and Disability Insurance program.

Table 3.1 illustrates the trend in the Canadian ratio since 1950. The corresponding ratio in the United States was just over 1.7 times total wages, salaries and the earnings of the self-employed. The 1950 Canadian held life insurance in an amount 2.6 times their

Table 3.1

Ratio of Life Insurance in Force to Total Earned Income

Year	Life Insurance in Force - End of Year (\$000,000)	Ratio of Life Insurance in Force to Total Earned Income
1950	\$ 2,675	1.0 (est.)
1955	4,515	1.4 (est.)
1960	6,568	1.6
1965	9,041	1.8
1970	12,000	1.9
1975	15,000	2.0
1980	18,000	2.1
1985	21,000	2.2
1990	24,000	2.3

3.21 As indicated in Table 3.1, in 1980 the ratio of life insurance owned to total earned income in the ten provinces ranged from 1.1 to 2.3 in Newfoundland to 2.3 to 1 in Quebec. However, seven of the provinces were within a narrow range, indicating a fairly close relationship between life insurance in force and earned income.

Table 3.2

Ratio of Life Insurance in Force to Total Earned Income - 1980

Province	Life Insurance in Force - End of Year (\$000,000)	Ratio of Life Insurance in Force to Total Earned Income
Newfoundland	\$ 425	1.1
Prince Edward Island	715	1.8
Nova Scotia	1,350	2.1
New Brunswick	975	2.0
Quebec	13,250	2.3
Ontario	10,000	2.2
Manitoba	1,000	1.8
Saskatchewan	1,000	1.8
Alberta	2,978	1.8
British Columbia	3,250	1.7

There were 649,000 annuity contracts or certificates in force with life insurance companies in Canada at the end of 1980. These provide

\* This ratio is based on private life insurance and therefore excludes the nonvoluntary benefits provided under the public Old Age Security and Family Allowance programs.



for present and future annual payments to annuitants of \$736 million per year. In 1935 there were 46,000 contracts in force with annual payments of \$18 million. Growth in the intervening years is outlined in Table 3.g.

Table 3.g

Annuities in Force in Canada

(Federally-Registered Companies )

End of- <u>Year</u>	Annual <u>Payment</u> (000,000)	<u>Individual</u>	<u>Group</u>	Settlement and <u>Disability</u>
1935	\$ 18	49%	29%	22%
1940	50	40	49	11
1945	79	35	55	10
1950	203	20	75	5
1955	382	13	83	4
1960	736	8	90	2

3.23 Group annuities represented 29 per cent of the 1935 total of all annuities in force compared with 90 per cent of the 1960 total. The growth of new group contracts in force has been an even more important factor in the annuity area than in the life insurance field.

3.24 Sixty-nine per cent of the annuities now in force are with Canadian companies and 31 per cent with United States and British companies.

3.25 The relative importance of annuities in the life insurance companies' role as gatherers of savings is indicated by the fact that 26 per cent of the companies' reserve liabilities in Canada at the end of 1960 related to annuities - 5 per cent to individual annuities, 19 per cent to group annuities and 2 per cent to annuities arising out of the settlement and disability provisions of the companies' contracts.

3.26 In 1960 the life insurance companies were





in force with annual payments of \$18 million. Growth in the intervening years is outlined in Table 3.8.

Table 3.8  
Annuities in Force in Canada

End of Year	Annual Payment (\$'000,000)	Individual	Group	Federally-Registered Companies (and other)
1935	\$ 18	40%	20%	20%
1940	50	41	49	10
1945	70	35	55	10
1950	203	50	75	5
1955	382	57	63	4
1960	756	5	90	5

Group annuities represented 49 per cent of the 1935 total of all annuities in force compared with 90 per cent of the 1960 total. The growth of new group contracts in force has been an even more important factor in the annuity area than in the life insurance field.

3.24 Sixty-nine per cent of the annuities now in force are with Canadian companies and 31 per cent with United States and British companies.

3.25 The relative importance of annuities in the life insurance companies' role as gatherers of savings is indicated by the fact that 26 per cent of the companies reserve liabilities in Canada at the end of 1960 related to annuities - 5 per cent to individual annuities, 19 per cent to group annuities and 2 per cent to annuities issued by the companies' subsidiaries.

In 1960 the life insurance companies have



1 administering about \$1.2 billion of assets relating  
2 particularly to the provision of group pensions. In  
3 comparison, the group pension plan reserves of the  
4 federal government's Annuities Branch equalled \$600 million  
5 and the assets of trustee pension plans totalled \$3.6  
6 billion.

7 Health Insurance

8 3.27 In addition to their life insurance and  
9 annuity services, over 30 life insurance companies are  
10 providing more than 5 million Canadians with insurance  
11 covering medical and surgical expenses, over 4 million  
12 with insurance for hospital expenses not covered by  
13 government hospitalization plans, and over 1.3 million  
14 workers with loss of time (weekly indemnity) insurance.

15 3.28 Health insurance is also provided by casualty  
16 insurance companies, medical care plans sponsored by the  
17 medical profession, and by Blue Cross and other voluntary  
18 plans.

19 PREMIUM INCOME

20 3.29 Premium income in Canada during 1960 totalled  
21 \$1.1 billion. Life insurance premiums accounted for  
22 \$769 million, annuity considerations \$184 million and  
23 health insurance premiums \$129 million.

24 3.30 Throughout the 1930's, payments for life  
25 insurance and annuities were maintained at a remarkably  
26 steady level despite economic difficulties. In part  
27 this can be attributed to the use by many policyholders  
28 of the loan provisions in their contracts for the payment  
29 of premiums. Since 1940 premium payments have risen  
30 each year in absolute amount. This along with the

...ing about \$1.2 billion of assets relating

...to the ... of the ...

... of the ...

Federal Government's Annuities Branch equalled \$600 million

and the assets of trusted pension plans totalled \$3.6

billion.

### Life Insurance

3.27 In addition to their life insurance and

annuity services, over 30 life insurance companies are

providing more than 5 million Canadians with insurance

covering medical and surgical expenses, over 4 million

... of the ...

Government hospitalization plans, and over 1.5 million

workers with loss of time (weekly indemnity) insurance.

3.28 Health insurance is also provided by casualty

insurance companies, medical care plans sponsored by the

medical profession, and by Blue Cross and other voluntary

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### Premium Income

3.29 Premium income in Canada during 1960 totalled

\$1.1 billion. Life insurance premiums accounted for

\$769 million, annuity considerations \$134 million and

health insurance premiums \$197 million.

3.30 Throughout the 1950's, payments for life

insurance and annuities were maintained at a remarkably

steady level despite economic difficulties. In part

this can be attributed to the use by many policyholders

of the loan provisions in their contracts for the payment

of premiums. About 1950 premium payments were about

the same as in 1940.





ratio to disposable income is set forth in Table 3.h.

Table 3.h

Ratio of Premiums\* to Disposable Income \*\* in Canada

<u>Year</u>	<u>Premiums*</u>	<u>% of Disposable Income **</u>
1930	\$ 226	5.3
1935	211	6.5
1940	217	4.5
1945	296	3.6
1950	443	3.5
1955	650	3.6
1960	953	3.8

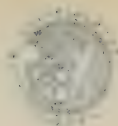
\*Includes annuity considerations but not health insurance premiums.

\*\*Personal income less personal direct taxes.

## BENEFIT PAYMENTS

3.31 As the ownership of life insurance and annuities has increased and the policies in force have aged, payments to policyholders and beneficiaries have grown materially. In 1960 life insurance and annuity benefits paid by all life companies amounted to \$560 million, compared with just over \$160 million in 1935 and 1945.

3.32 Table 3.1 gives an analysis of the benefit payments made by federally-registered companies. Death claims since 1945 have accounted for less than 40 per cent of total payments. The balance in the main represents payments to living policyholders. The reliance placed by policyholders on the cash surrender provisions during the economic difficulties of the 1930's is illustrated in the 1935 figures.



ratio to disposable income is set forth in Table 3.1.

Table 3.1. Ratio of Annuity Payments to Disposable Income, 1930-1955

Year	Ratio of Annuity Payments to Disposable Income	Ratio of Annuity Payments to Disposable Income
1930	5.3	\$ 226
1935	6.5	211
1940	4.5	217
1945	3.5	443
1950	3.5	650
1955	3.6	953
1960	3.6	

\*Includes annuity considerations but not health insurance

premiums.

\*\*Personal income less personal direct taxes.

3.31 As the ownership of life insurance and

annuities has increased and the policies in force have

aged, payments to policyholders and beneficiaries have

grown materially. In 1960 life insurance and annuity

benefits paid by all life companies amounted to \$260 million,

compared with just over \$160 million in 1935 and 1945.

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payments made by federally-registered companies. Death

claims since 1945 have accounted for less than 40 per cent of

total payments. The balance in the main represents payments

to living policyholders. The reliance placed by policy-

holders on the cash surrender provisions during the

economic difficulties of the 1930's is illustrated in

the 1935 figures.

Table 3.1

A.37

Benefit Payments in Canada

(000,000 omitted)

<u>Year</u>	<u>Death Claims</u>	<u>Matured Endowments</u>	<u>Disability Claims</u>	<u>Cash Values</u>	<u>Policy Dividends</u>	<u>Annuity Payments</u>	<u>Total</u>
1935	\$ 42	\$ 13	\$ 3	\$ 71	\$ 30	\$ 3	\$162
1940	50	24	3	54	30	7	168
1945	68	28	3	26	29	10	164
1950	86	35	4	53	41	20	239
1955	124	34	4	71	69	35	337
1960	196	46	5	129	109	75	560

LEVEL-PREMIUM LIFE INSURANCE

- 3.33 The regular methodical purchase of level-premium plans of life insurance by millions of Canadians is the basis for the accumulation of funds in the companies.
- 3.34 Under level-premium plans the amount of the annual premium remains unchanged throughout the premium-paying period although the probability of death of the insured person increases as time goes on. In the early years of a level-premium policy, the likelihood of death is low in relation to later years and the premiums paid for a block of like policies exceed death claims. In the later years of the block of policies, the premiums paid are less than the amounts necessary to meet the claims that come with advancing years and rising mortality or the maturity of the policy.
- 3.35 When a level-premium plan is issued, a fund or reserve must be accumulated in the early years to meet the rising level of claims that will occur during the later years of such policies. These reserve requirements lead to the accumulation of personal saving through life insurance.
- 3.36 The extent to which reserves are built up varies with the type of level-premium plan. Term life insurance covers the possibility of



Table 3.1

(000,000 omitted)

Year	Death Claims	Matured Endowments	Reserve Claims	Cash Values	Policy Dividends	Annual Payments
1935	\$ 45	\$ 13	\$ 3	\$ 71	\$ 30	\$ 3
1940	50	24	3	54	30	7
1945	68	28	3	26	22	10
1950	86	32	4	23	11	20
1955	124	34	4	71	69	32
1960	196	46	5	123	109	72

# LEVEL-PREMIUM LIFE INSURANCE

The regular methodical purchase of level-premium plans of life insurance by millions of Canadians is the basis for the accumulation of funds in the companies.

Under level-premium plans the amount of the annual premium remains unchanged throughout the premium-paying period although the probability of death of the insured person increases as time goes on.

In the early years of a level-premium policy, the likelihood of death is low in relation to later years and the premiums paid for a block of like policies exceed death claims. In the later years of the block of policies, the premiums paid are less than the amounts necessary to meet the claims that come with advancing years and rising mortality or the maturity of the policy.

When a level-premium plan is issued, a fund or reserve must be accumulated in the early years to meet the rising level of claims that will occur during the later years of such policies. These reserve requirements lead to the accumulation of personal savings through life insurance.

The extent to which reserves are built up varies with the type of level-premium plan. Term life insurance covers the possibility of



1 death during the limited term of the policy while a  
2 straight life policy is based on the certainty of the  
3 death of the insured and the certainty that the death  
4 benefit must be paid. A five-year or longer term policy  
5 would be written on a level-premium plan but the short  
6 duration and the very nature of such a policy would not  
7 require a reserve accumulation during the five years or  
8 other term of nearly the size that would be necessary  
9 under a straight life policy that would be expected to  
10 carry on many years until the death of the insured.  
11 In turn, the rate of reserve accumulation under an endow-  
12 ment policy is greater than under straight life or other  
13 so-called life policies since the payment of the endowment  
14 benefit is due either at the end of a specific period of,  
15 say, 20 years or at the death of the insured if earlier.

16 3.37 There are, of course, other factors affecting  
17 the rate of accumulation of funds in the companies, for  
18 example, the rate of investment earnings, the extent of  
19 cash withdrawals in the case of policies having reserves  
20 and the degree to which beneficiaries leave policy  
21 proceeds (including policyholder dividends) on deposit  
22 with the company to earn interest.

23 RECENT TRENDS IN NEW BUSINESS

24  
25 3.38 Purchases of life insurance in Canada amounted  
26 to \$6.1 billion during 1960, ten times the 1935 figure.  
27 This is set forth in Table 3.j.



during the limited term of the policy while a

straight life policy is based on the certainty of the

death of the insured and the accumulation of the reserve

A five-year or longer term policy

would be written on a level-premium plan but the short

duration and the very nature of such a policy would not

require a reserve accumulation during the five years or

other term of nearly the size that would be necessary

under a straight life policy that would be expected to

carry on many years until the death of the insured.

In turn, the rate of reserve accumulation under an endow-

ment policy is greater than under straight life or other

term policies because it is based on the assumption that the

benefit is due either at the end of a specific period or

say, 20 years or at the death of the insured if earlier.

There are, of course, other factors affecting

the rate of accumulation of funds in the company, for

example, the rate of investment earnings, the extent of

cash withdrawals in the case of policies having reserves

and the degree to which beneficiaries leave policy

proceeds (including policyholders' dividends) on deposit

with the company to earn interest.

#### PROMOTED TRENDS IN NEW BUSINESS

Business of life insurance in Canada amounted

to \$2.1 billion during 1950, and since the 1935 figure.

This figure is shown in Table 2.1.





Table 3.j

Life Insurance Purchased in Canada

Year	Purchases (000,000)	Individual*		Group*	
		Amount (000,000)	%	Amount (000,000)	%
1935	\$ 602	\$ 582		\$ 20	3
1940	604	575		29	5
1945	1,057	991		66	6
1950	1,900	1,642		258	14
1955	3,454	2,763		691	20
1960	6,129	4,576		1,553	25

\*Figures for the provincial companies are estimated for earlier years. Comparison with Table 3.d shows that group insurance represents a smaller proportion of purchases than of business in force. The main reason for this is that normal increases in insurance under an existing group contract are not considered to be purchases of new insurance.

3.39 A substantial part of the 1960 purchases was temporary or term insurance and that portion has been increasing in recent years. For example group insurance, which is almost always term insurance, accounted for 25 per cent of 1960 purchases. In 1935 group insurance represented only 3 per cent of new purchases. With respect to life insurance purchased by individuals, 42 per cent was on a term basis in 1960 compared with 8 per cent in 1935. Much of this term insurance takes the form of family income, mortgage redemption and other special policies which combine term with permanent forms of insurance. The increase in term insurance reflects a growing public recognition of the need for substantial amounts of protection.

3.40 As a result, purchases of the "permanent" life



Year	Purchases (000,000)	Individuals Amount (000,000)	Group Amount (000,000)
1960	6,129	4,276	1,557
1955	3,454	2,763	601
1950	1,900	1,642	258
1945	1,057	991	66
1940	604	272	29
1935	\$ 602	\$ 282	20

Figures for the provincial companies are estimated for earlier years. Comparison with Table 3.4 shows that group insurance represents a smaller proportion of purchases than of business in force. The main reason for this is that normal increases in insurance under an existing group contract are not considered to be purchases of new insurance.

A substantial part of the 1960 purchases was temporary or term insurance and that position has been increasing in recent years. For example group insurance, which is almost always term insurance, accounted for 25 per cent of 1960 purchases. In 1955 group insurance represented only 5 per cent of new purchases. With respect to life insurance purchased by individuals, 42 per cent was on a term basis in 1960 compared with 6 per cent in 1955. Much of this term insurance takes the form of family income, mortgage redemption and other special policies which combine term with permanent forms of insurance. The increase in term insurance reflects a growing public recognition of the need for substantial insurance.

As a result, purchases of the "permanent" life



insurance plans, that is, those which contain a savings element, have declined as a proportion of the total. Nonetheless, purchases of such plans have increased in absolute terms. In 1935 purchases of "permanent" plans amounted to \$400 million, in 1945 \$600 million and in 1960 \$2.6 billion. This is exclusive of the increasing proportion of saving which has been done in the form of annuities.

## ASSETS

3.41 The assets relating to the life insurance and annuity business in Canada totalled \$8,260 million at the end of 1960. Of this, 70 per cent was held by Canadian federally-registered companies, 3 per cent by provincial companies and 27 per cent by United States, British and other European companies to cover their Canadian liabilities. In addition, assets relating to the life companies' health insurance operations in Canada amounted to about \$80 million.

Table 3.k

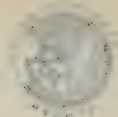
Life Insurance Assets Held in Canada

(000,000 omitted)

End of Year	Federally-Registered Companies	Provincial Companies	Total
1935	\$ 1,828	\$ 40	\$1,868
1940	2,220	46	2,266
1945	2,886	52	2,938
1950	3,997	79	4,076
1955	5,599	125	5,724
1960	8,007	253	8,260

3.42 At the end of 1960 the assets held outside of Canada by Canadian companies on behalf of and for the protection of policyholders and annuitants abroad amounted





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### Life Insurance Assets Held in Canada

(000,000 omitted)

End of Year	Companies	Companies	Total
1975	\$ 1,328	\$ 40	\$1,368
1970	2,386	52	2,438
1965	3,997	70	4,067
1960	5,590	127	5,717
1955	8,007	253	8,260

At the end of 1960 the assets held outside

of Canada by Canadian companies or by United States, British and other European companies to cover their Canadian liabilities amounted to about \$80 million.



1 to \$2,860 million. At the same time assets held in  
2 Canada by non-resident companies for the protection of  
3 Canadian policyholders amounted to \$2,260 million.  
4 3.43 Detailed analysis of the composition and  
5 growth of the life insurance companies' assets in Canada  
6 and their importance in the economy is provided in sections  
7 4 and 5 of this submission.

8  
9 SUPERVISION OF INSURANCE

10 3.44 The federal and provincial governments in  
11 Canada have shared responsibility for the supervision  
12 of the insurance business in Canada since 1868 when the  
13 first federal Insurance Act was passed. For many years  
14 before that time insurance legislation had existed in  
15 some provinces. Since that time, provincial laws have  
16 developed alongside of federal laws and insurers have  
17 been incorporated under both federal and provincial  
18 laws.

19 3.45 Briefly, the federal department of Insurance  
20 concerns itself with the solvency of insurers and the  
21 provincial Departments mainly with the regulation of the  
22 business. The practical division of responsibility may  
23 be summarized as follows:

24 (a) The federal Department registers all federally-  
25 incorporated Canadian insurers, all non-Canadian insurers  
26 doing business in Canada and, in addition, a few  
27 provincial companies that have voluntarily placed themselves  
28 under its jurisdiction. It inspects insurers registered  
29 by it and administers legislation respecting the valuation  
30 of assets and liabilities, deposits, solvency, etc., of



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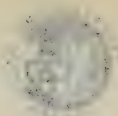
1 these insurers. 2 Whether or not they hold federal certificates  
3 of registry all insurers must be licensed in each province  
4 (except Nova Scotia) in which they operate. Three  
5 provinces - Manitoba, Newfoundland and Nova Scotia -  
6 will not permit insurers to transact life insurance within  
7 their jurisdictions unless they are registered at Ottawa.  
8 The provinces require documents of incorporation, etc.,  
9 to be filed initially by each insurer and thereafter  
10 annual statements showing its general financial condition  
11 and particulars of its business in the province. The  
12 provinces do not inspect or require deposits from  
13 federally-registered insurers.

14 (c) The provincial Departments supervise and  
15 assume responsibility for inspections relating to the,  
16 solvency of insurers not registered with the federal  
17 Department.

18 (d) The provinces exclusively legislate  
19 respecting:

- 20 (i) insurance contracts and the terms,  
21 conditions and incidents thereof; and  
22 (ii) the licensing and regulation of agents,  
23 brokers and adjusters,  
24 and enforce this legislation.

25 3.46 While many of the provisions of the first  
26 federal Insurance Act of 1868 are traceable in the  
27 insurance legislation of the present day, probably the  
28 most important single federal enactment respecting  
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1 stock investment in 1932 and the introduction of the so-  
2 called "basket" clause in 1948, the investment powers  
3 of the companies as detailed in the Act of 1910 stood  
4 without substantial change until 1950. In that year  
5 and again in 1961 they were further enlarged in important  
6 particulars. The current investment powers are reviewed  
7 in section 4.

8 3.47 By and large, insurance legislation and  
9 government regulation have been well conceived and  
10 administered in Canada for more than one hundred years  
11 and are entitled to a share of the credit for the unique  
12 record represented by the fact that no policyholder in a  
13 Canadian legal reserve life insurance company has ever  
14 lost a dollar through non-payment of the amount guaranteed  
15 under his policy at death or on maturity. Canadians  
16 insured with companies from other countries doing  
17 business in Canada have, for more than 75 years, been  
18 equally well served. As new forms of investment, new  
19 forms of cover and new problems have developed, amendments  
20 to the legislation have been made.

21 3.48 The division of authority between the federal  
22 and provincial governments in the matter of the supervision  
23 of insurance, and particularly a suggestion that the  
24 supervision and regulation of the business should be  
25 undertaken exclusively by the federal government, were  
26 considered by the Royal Commission on Dominion-Provincial  
27 Relations in January, 1938. The views of the Association  
28 were placed before that body in the form of the following  
29 resolution.

30 "The Canadian Life Insurance Officers





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1 Association suggests that the law of life  
2 insurance contracts, as exemplified by the  
3 Uniform Life Insurance Act of the Canadian  
4 Provinces and comparable provisions in the  
5 Quebec Civil Code, and the licensing of life  
6 insurance agents, be within exclusive  
7 provincial jurisdiction, but that all other  
8 matters concerning the supervision (licensing,  
9 solvency, investments, inspections and reports)  
10 of life insurance companies doing business in  
11 more than one province, and the regulation  
12 of life insurance business generally, be  
13 within the exclusive jurisdiction of the  
14 Dominion."

15 The Association went on to say that it felt that the  
16 foregoing resolution recognized the national character  
17 of the life insurance business in its proper relation  
18 to local interests and existing political and other  
19 conditions in Canada and hoped that the Commission would  
20 recommend that the British North America Act, 1867, be  
21 amended to give effect to the substance of the resolution  
22 and to make certain that the respective powers of the  
23 federal government and the provinces with respect to life  
24 insurance are clearly defined. The Commission generally  
25 endorsed the Association's stand but the suggested change  
26 in the constitution has not been made.

27  
28 LIVE INSURANCE REPORTS

29 3.49 The federally-registered life insurance  
30 companies make exhaustive reports to the Superintendent  
of Insurance on forms prescribed by him. These reports







1 set forth all aspects of a company's business in great  
2 detail. The results are summarized each year in the Report  
3 of the Superintendent of Insurance for Canada. That  
4 part related to life insurance runs to some 900 pages.  
5 The life insurance companies engaged in the health  
6 insurance business report separately on this branch of  
7 their business. Provincial companies make similarly  
8 detailed reports to their Superintendents. The reports  
9 of the Superintendents are readily available but to the  
10 uninitiated they may represent a very formidable array  
11 of figures.

12 3.50 Companies, of course, present statements  
13 of their affairs at their annual meetings. In the case of  
14 a Canadian federally-registered company, notice of such  
15 meeting must be given at least 15 days before in two or  
16 more daily newspapers in or near the head office city  
17 and premium notices or receipts at least once each year  
18 must contain a statement of the participating policy-  
19 holder's right to attend and vote in person or by proxy  
20 at such meeting.

21 3.51 The life insurance business is a complicated  
22 one involving as it does so many forward judgments relative  
23 to the mortality, expense and interest factors. Comparison  
24 as between companies requires exhaustive and competent  
25 analysis which unfortunately is beyond the capacity of  
26 most laymen. No satisfactory method has yet been found  
27 to produce a simple index or indices for comparative  
28 purposes.

29 3.52 Comparison of the "net earned interest rate"  
30 which is published affords some indication of the results



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The life insurance companies engaged in the health insurance business report separately on this branch of

their business. Provincial companies make similarly detailed reports to their Superintendents. The reports

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to the mortality, expense and interest factors. Comparison as between companies requires extensive and competent

analysts which unfortunately is beyond the capacity of most laymen. No statistical method has yet been found

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1 accruing from a company's investment operation but can  
2 only be used with some qualification. It may be affected  
3 by a company's treatment of asset values and investment  
4 expense apportionment. Further the published rate is  
5 based on the company's total assets. Where a company  
6 has assets outside of Canada, the rate is of course  
7 influenced by the yields obtained abroad. If a "net  
8 earned interest rate" on Canadian assets alone were thought  
9 to be desirable, the companies could undoubtedly develop  
10 it. Despite the detailed information available,  
11 the difficulty of making valid comparisons between  
12 companies in the fields of expense and mortality seems  
13 to be even greater. Expenses tend to vary directly  
14 with the degree of service rendered while mortality  
15 tends to reflect the experience of the population groups  
16 insured. Certainly no all-inclusive method could yield  
17 unqualified measures of either of these diverse elements.  
18 Comparison of premium levels, dividends  
19 and cash surrender values for strictly comparable policies  
20 in different companies affords the buyer possibly the  
21 easiest and best comparison. Such information is available  
22 in handbooks published by an independent agency. Even  
23 this extensive information can only be used with some  
24 qualification. It is difficult to find "strictly  
25 comparable" policies and any comparison is likely to fail  
26 to take into account important policy provisions. It  
27 will also fail to take into account the service that  
28 may be expected both from the company and from the  
29 agent and the company's policy with regard to dividend  
30 agent and the company's policy with regard to dividend





1. The first of the two main points is that the rate of interest is not an independent variable. It is determined by the market for money, and its effect on the economy is indirect. It operates through the demand for investment funds. A rise in the rate of interest will reduce the demand for investment funds, and this will lead to a fall in the rate of interest. The second point is that the rate of interest is not a price. It is not a price of any particular commodity, and it does not determine the allocation of resources. It is a price of the right to use money, and it determines the allocation of money.

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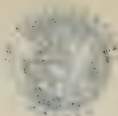
1 distribution. The most important considerations to most  
2 prospective purchasers are likely to be beyond the scope  
3 of mechanistic comparison.

#### COMPETITION

6 3.55 There is intense competition among life  
7 insurance companies in the life insurance, annuity and  
8 health insurance fields. This competition within the  
9 industry shows no signs of decreasing. Since 1935 for  
10 example, the number of federally-registered life insurance  
11 companies in Canada increased 50 per cent. Despite the  
12 more rapid growth in the number of non-resident life  
13 companies operating in Canada, the Canadian life companies  
14 have increased their proportion of life insurance in force  
15 (see Table 3.b.).

16 3.56 Competition within the industry is further  
17 indicated by the decline in the share of life insurance  
18 in force held by the larger companies. For example,  
19 in 1935 the five largest companies held 53 per cent of the  
20 business in force; in 1960 these same companies held  
21 48 per cent. The next five companies had on their books  
22 24 per cent of the total life insurance in force in 1935;  
23 in 1960 these same five companies held 19 per cent of the  
24 total. In 1935 the largest share held by any one company  
25 was 16½ per cent; in 1960 the largest company, which  
26 had been third largest in 1935, had 12 per cent.

27 3.57 The benefits of competition accrue to policy-  
28 holders and annuitants. For example, since 1950 one medium-  
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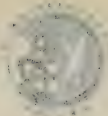




1 and changed its group pension rates fifteen times to  
2 keep the price of its products in line with changing  
3 interest, mortality and expense experience, and abreast  
4 of competition. Other companies have likewise made  
5 frequent adjustments. Competition has led to the  
6 widespread adoption of such recent innovations as the  
7 graduation of premiums by size of policy, the family plan,  
8 special rates for women and guaranteed insurability.  
9 In the group field where policies are subject to annual  
10 renewal and review, competition centers on fractional  
11 differences in price arising from the inevitable variations  
12 in the evaluation of the risk among the quoting companies.  
13 In the pension field an individual company may offer the  
14 choice of group annuity, deposit administration or  
15 variable accumulation approaches to funding. The  
16 widespread introduction of computers will undoubtedly  
17 lead to further flexibility in the fashioning of contracts  
18 in all fields with a consequent increase in competition  
19 in this respect.

20 3.58 Investment earnings are a vital factor in  
21 the determination of the cost of insurance to policy-  
22 holders. Competition among individual companies in the  
23 investment aspects of the business is discussed in section  
24 5. Aspects of the industry's competition with other  
25 savings institutions are discussed in section 7.

26 3.59 Life insurance has always had to be sold.  
27 Most people require some persuasion to put aside for  
28 tomorrow a dollar which is available to be spent today.  
29 This is the continuing task of life insurance representat-  
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This is the continuing task of life insurance representatives.

Also, in the face of the complexities of law,



*Nethercut & Young*

A.49

*Toronto, Ontario*

1 taxation and estate administration, the tailoring of life  
2 insurance programs to changing needs requires continuing  
3 service as well. Qualified field representatives who  
4 do this selling and servicing have been responsible in  
5 large measure for the growth in insurance protection and  
6 for the pre-eminent position the life insurance industry  
7 enjoys as a collector of voluntary personal savings.





location and general administration, the carrying of the  
 financial program of managing assets requires coordination  
 between the various departments and the various branches of  
 the organization and especially with the various branches of  
 the organization for the growth in insurance protection and  
 for the various branches of the insurance industry.  
 enjoys as a collector of voluntary personal savings.

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SECTION 4

THE POSITION OF THE LIFE INSURANCE  
INDUSTRY IN THE CANADIAN FINANCIAL SYSTEM

4.1 In consequence of their primary function of providing life insurance and annuities, the life insurance companies have been important financial intermediaries within the Canadian financial system for more than 100 years.

LIFE INSURANCE SAVING

4.2 A significant portion of Canadian saving is channelled through the life insurance companies. Hence, the industry occupies a very important position in the structure of our capital market as a supplier of new investment funds. These savings dollars arise from two principal sources - premiums for insurance and annuities and investment income. Over long periods of time life insurance saving has tended to vary with personal income. Maintenance of this relationship, of course, will depend upon the relative relative attractiveness of this form of saving for the individual as well as the prevalence of a reasonably stable economic and financial environment.

4.3 The relative importance of life insurance saving in Canada is set forth in Table 4.a which displays the relationship between estimated insurance saving and both disposable personal income and personal saving for the period 1926-60.

4.4 The derivation of estimated life insurance saving for the period 1950-60 is shown in Table 4.b.

Premium income is the largest single component of total

## THE POSITION OF THE LIFE INSURANCE

## INDUSTRY IN THE CANADIAN FINANCIAL SYSTEM

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4.3 The relative importance of life insurance saving in Canada is set forth in Table 4.2 which displays the relationship between estimated insurance saving and both disposable personal income and personal saving for the period 1926-50.

4.4 The derivation of estimated life insurance saving for the period 1950-50 is shown in Table 4.3. Premium income is the largest single component of total





1 income although it has dropped from 78 per cent to 72  
2 per cent during the period. This reflects the trend  
3 toward a greater proportionate sale of temporary or term  
4 coverage and the increase in the rate of investment  
5 earnings.

6 4.5 Certain relationships are clear. In periods  
7 relatively free of extraordinary economic and financial  
8 events (such as depression, war or rapid inflation)  
9 annual changes in insurance saving tend to move fairly  
10 closely with movements in disposable personal income.  
11 A prolonged economic decline tends to have a relatively  
12 heavier impact on this form of saving than it does on  
13 income while on the other hand, in periods of rapid  
14 inflation, with income rising, the increase in insurance  
15 saving tends to respond more slowly.

16 4.6 The period since 1952 has been relatively  
17 free of the extreme economic and financial developments  
18 that characterized the preceding 23 years. Disposable  
19 personal income displayed a relatively steady growth  
20 and as the period advanced there was an important slowing  
21 down in the rate of price inflation. Under such  
22 conditions life insurance saving appears to bear a fairly  
23 consistent relationship to disposable personal income -  
24 a relationship of the order of 1.75 per cent. In 1960  
25 this represented \$450 million.

26 4.7 The relationship between life insurance saving  
27 and personal saving, so defined in the National Accounts,  
28 is difficult to measure satisfactorily. The personal  
29 saving series in the National Accounts is the residual  
30 component of the calculation and as such may not be too



percent during the period. This reflects the trend toward a greater proportionate sale of temporary or term coverage and the increase in the rate of investment earnings.

4.5 Certain relationships are clear. In periods relatively free of extraordinary economic and financial events (such as depression, war or rapid inflation) annual changes in insurance saving tend to move fairly closely with movements in disposable personal income. A prolonged economic decline tends to have a relatively heavier impact on this form of saving than it does on income while on the other hand, in periods of rapid inflation, with income rising, the increase in insurance saving tends to respond more slowly.

4.6 The period since 1928 has been relatively free of the extreme economic and financial developments that characterized the preceding 25 years. Disposable personal income displayed a relatively steady growth and as the period advanced there was an important slowing down in the rate of price inflation. Under such conditions life insurance saving appears to bear a fairly constant relationship to disposable personal income - a relationship of the order of 1.75 per cent. In 1950 this represented \$450 million.

4.7 The relationship between life insurance saving and personal saving, as defined in the National Accounts, is difficult to measure satisfactorily. The personal saving series in the National Accounts is the residual component of the calculation and as such may not be for

Table 4.a

Life Insurance Saving, Disposable Personal Income and Personal Saving1926 - 1960

Year	A.	B.	$\frac{A}{B}$	C.	$\frac{A}{C}$
	Life Insurance Saving* (000,000)	Disposable Personal Income (000,000)		Personal Saving (000,000)	
1926	\$ 77	\$ 3,961	1.94 %	\$ 419	18.4 %
1927	83	4,175	1.99	282	29.4
1928	95	4,495	2.11	181	52.5
1929	81	4,540	1.78	- 81	-
1930	74	4,267	1.73	- 100	-
1931	63	3,552	1.77	- 221	-
1932	29	2,951	0.98	- 243	-
1933	46	2,721	1.69	- 263	-
1934	73	3,070	2.38	- 112	-
1935	80	3,268	2.45	- 70	-
1936	89	3,452	2.58	- 97	-
1937	87	3,895	2.23	11	790.0
1938	86	3,953	2.18	56	153.6
1939	81	4,178	1.94	194	41.8
1940	84	4,775	1.76	287	29.3
1941	108	5,555	1.94	452	23.9
1942	125	6,898	1.81	1,398	8.9
1943	159	7,344	2.17	1,536	10.4
1944	172	8,027	2.14	1,753	9.8
1945	178	8,311	2.14	1,342	13.3
1946	184	8,923	2.06	892	20.6
1947	183	9,584	1.91	494	37.0
1948	192	11,079	1.73	994	19.3
1949	208	11,849	1.76	926	22.5
1950	209	12,688	1.65	662	31.6
1951	228	14,794	1.54	1,334	17.1
1952	245	16,072	1.52	1,291	19.0
1953	279	16,904	1.65	1,312	21.3
1954	307	16,984	1.81	809	37.9
1955	342	18,239	1.88	850	40.2
1956	343	20,153	1.70	1,320	26.0
1957	344	21,274	1.62	1,202	28.6
1958	407	22,914	1.78	1,674	24.3
1959	444	24,236	1.83	1,754	25.3
1960	450	25,084	1.79	1,675	26.9

Sources: Dominion Bureau of Statistics and C.L.I.O.A.

\*Methods used to estimate life insurance saving are outlined in Appendix 3.



\*Methods used to evaluate life insurance savings are outlined in Appendix 2.  
 Sources: Dominion Bureau of Statistics and C.I.B.O.A.

1960	1.50	25.084	1.79	1.675	50.9
1959	441	24,940	1.83	1.737	52.3
1958	407	23.911	1.73	1.677	50.3
1957	344	21,541	1.65	1.598	50.4
1956	345	18,999	1.68	1.620	40.9
1955	345	18,999	1.68	1.620	40.9
1954	307	16,984	1.61	1.551	37.9
1953	279	16,984	1.65	1.575	37.3
1952	11,777	14,794	1.74	1.634	37.1
1951	268	14,794	1.74	1.634	37.1
1950	268	12,606	1.65	1.551	37.6
1949	268	11,440	1.76	1.666	37.6
1948	199	11,440	1.73	1.634	37.6
1947	193	9,553	1.91	1.91	37.0
1946	184	8,511	2.06	2.06	37.0
1945	178	8,511	2.14	2.14	37.3
1944	170	7,346	2.17	2.17	37.3
1943	155	6,943	2.17	2.17	37.3
1942	155	6,943	2.17	2.17	37.3
1941	155	6,943	2.17	2.17	37.3
1940	155	6,943	2.17	2.17	37.3
1939	155	6,943	2.17	2.17	37.3
1938	155	6,943	2.17	2.17	37.3
1937	155	6,943	2.17	2.17	37.3
1936	155	6,943	2.17	2.17	37.3
1935	155	6,943	2.17	2.17	37.3
1934	155	6,943	2.17	2.17	37.3
1933	155	6,943	2.17	2.17	37.3
1932	155	6,943	2.17	2.17	37.3
1931	155	6,943	2.17	2.17	37.3
1930	155	6,943	2.17	2.17	37.3
1929	155	6,943	2.17	2.17	37.3
1928	155	6,943	2.17	2.17	37.3
1927	155	6,943	2.17	2.17	37.3
1926	155	6,943	2.17	2.17	37.3
1925	155	6,943	2.17	2.17	37.3
1924	155	6,943	2.17	2.17	37.3
1923	155	6,943	2.17	2.17	37.3
1922	155	6,943	2.17	2.17	37.3
1921	155	6,943	2.17	2.17	37.3
1920	155	6,943	2.17	2.17	37.3
1919	155	6,943	2.17	2.17	37.3
1918	155	6,943	2.17	2.17	37.3
1917	155	6,943	2.17	2.17	37.3
1916	155	6,943	2.17	2.17	37.3
1915	155	6,943	2.17	2.17	37.3
1914	155	6,943	2.17	2.17	37.3
1913	155	6,943	2.17	2.17	37.3
1912	155	6,943	2.17	2.17	37.3
1911	155	6,943	2.17	2.17	37.3
1910	155	6,943	2.17	2.17	37.3
1909	155	6,943	2.17	2.17	37.3
1908	155	6,943	2.17	2.17	37.3
1907	155	6,943	2.17	2.17	37.3
1906	155	6,943	2.17	2.17	37.3
1905	155	6,943	2.17	2.17	37.3
1904	155	6,943	2.17	2.17	37.3
1903	155	6,943	2.17	2.17	37.3
1902	155	6,943	2.17	2.17	37.3
1901	155	6,943	2.17	2.17	37.3
1900	155	6,943	2.17	2.17	37.3

Table 4.b  
Some Components of Life Insurance Saving in Canada 1950 - 1960  
(000,000 omitted)

Year	Premium Income (incl. that for settlement annuities)	Net Deposits Left with Companies At Interest	Invest- ment Income*	Total Income	Total Outgo	Net Income	Increase in Policy Loans	Net Life Insur. Saving	Insurance Saving as % of D.P.I.	Insurance Saving as % of Personal Saving
1950	\$453.5	\$ 9.7	\$130.1	\$593.3	\$372.4	\$220.9	\$11.7	\$209.2	1.65	31.6
1951	501.7	4.2	143.7	649.6	401.5	248.1	20.6	227.5	1.54	17.1
1952	522.6	.8	156.3	679.7	421.0	258.7	14.0	244.7	1.52	19.0
1953	565.4	.3	180.5	746.2	455.1	291.1	12.2	278.9	1.65	21.3
1954	616.7	4.3	203.3	824.3	501.7	322.6	15.3	307.3	1.81	37.9
1955	666.0	7.8	232.2	905.8	552.7	353.1	10.6	342.5	1.88	40.2
1956	726.5	5.5	263.2	985.2	620.9	364.3	21.5	342.8	1.70	26.0
1957	790.4	-2.4	286.4	1,074.4	704.3	370.1	25.8	344.3	1.62	28.6
1958	861.5	8.2	303.7	1,173.4	754.3	419.1	12.0	407.1	1.78	24.3
1959	941.6	3.2	330.9	1,275.7	812.7	463.0	19.0	444.0	1.83	25.3
1960	967.0	8.2	372.0	1,347.2	874.3	472.9	23.0	449.9	1.79	26.9

Source: C.L.I.O.A. - See Appendix 3 for an outline of the methods of estimation used.

\* Interest, dividends and rents adjusted for capital gains and losses without deduction of investment expenses.

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1 precise. Despite this limitation, however, it is clear  
2 that life insurance saving does represent a very  
3 significant proportion of total personal saving during  
4 the war years, when personal saving rose substantially  
5 and the percentage relationship of life insurance saving  
6 declined to around 9 per cent. On the other hand, during  
7 the depression there was net personal dissaving in Canada  
8 and yet life insurance saving remained positive.

9 4.8 The period 1956-60 seems to show a relatively  
10 stable relationship between the two measures of saving.  
11 During this time, life insurance saving appears to account  
12 for approximately 26 per cent of total personal saving  
13 in Canada.

#### 15 INVESTMENT REGULATION

16 4.9 The investment operations of federally-  
17 registered life insurance companies in Canada must  
18 conform to the provisions of the Canadian and British  
19 Insurance Companies Act and the Foreign Insurance Companies  
20 Act. These define certain broad categories of investments  
21 in which life insurance funds may be placed, and impose  
22 certain additional limitations within some categories.  
23 They also define certain investments which are prohibited.

24 4.10 Broadly speaking, the chief categories in  
25 which life insurance funds may be invested are as  
26 follows:

27 (a) Bonds, direct and guaranteed, of the  
28 governments of Canada and other Commonwealth countries,  
29 the United States of America and other countries or  
30 subdivisions in which the company does business.



significant proportion of total personal saving during

and the percentage relationship of life insurance saving declined to around 9 per cent. On the other hand, during the depression there was net personal dissaving in Canada and yet life insurance saving remained positive.

4.8 The period 1926-30 seems to show a relatively stable relationship between the two measures of saving. During this time, life insurance saving appears to account for approximately 26 per cent of total personal saving in Canada.

INVESTMENT REGULATION

4.9 The investment operations of federally-

registered life insurance companies in Canada must

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in which life insurance funds may be placed, and impose

certain additional limitations within some categories.

They also define certain investments which are prohibited.

4.10 Broadly speaking, the chief categories in

which life insurance funds may be invested are as

follows:

(a) Bonds, direct and guaranteed, of the

Governments of Canada and other Commonwealth countries,

the United States of America and other countries or



1 (b) Bonds, direct and guaranteed, of a municipality  
2 in Canada or any other country in which the company is  
3 carrying on business.

4 (c) Corporation bonds fully secured by mortgage  
5 on property.

6 (d) Equipment trust certificates issued for the  
7 purchase of transportation equipment for use on railways  
8 or public highways by a Canadian or United States  
9 corporation.

10 (e) Corporation debentures, provided the  
11 corporation has consistently paid dividends on its shares  
12 for at least the preceding five years or has had  
13 satisfactory earnings in that period.

14 (f) Guaranteed investment certificates issued by  
15 a Canadian trust corporation, provided the corporation  
16 has consistently paid dividends on its shares for at least  
17 the preceding five years.

18 (g) Preferred shares, provided the corporation  
19 has paid dividends on such shares or on its common shares  
20 (of at least 4 per cent of stated value) for at least  
21 the preceding five years.

22 (h) Common shares, provided the corporation has  
23 paid dividends of at least 4 per cent of the stated value  
24 of the shares for the preceding seven years.

25 (i) Mortgage loans on real estate not to exceed  
26  $66\frac{2}{3}$  per cent of the value of such real estate, or loans  
27 in excess of this limit if the excess is guaranteed or  
28 insured by a government, and mortgage loans under the  
29 National Housing Act.

30 (j) Real estate or leaseholds for the production





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(c) Corporation bonds fully secured by mortgages

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(f) Guaranteed investment certificates issued by

a Canadian trust corporation, provided the corporation has consistently paid dividends on its shares for at least the preceding five years.

(g) Preferred shares, provided the corporation has paid dividends on such shares or on its common shares (of at least 4 per cent of stated value) for at least the preceding five years.

(h) Common shares, provided the corporation has paid dividends of at least 4 per cent of the stated value of the shares for the preceding seven years.

(i) Mortgage loans on real estate not to exceed 66 2/3 per cent of the value of such real estate, or loans in excess of this limit if the excess is guaranteed or insured by a Government, and mortgage loans and shares

National Housing Act.

(j) Real estate or leaseholds for the production



1 of income, providing the leasing corporation has a dividend  
2 record that would qualify its debentures (see item (e) above)  
3 and the lease requires repayment of at least 85 per cent  
4 of the amount invested within the period of the lease;  
5 in any case, this amount should be repaid in not more  
6 than thirty years.

7 (k) Real estate for its own use. Real estate  
8 acquired through foreclosure of mortgage loans does not  
9 qualify as an asset after a limited period of years.

10 (l) Ground rents.

11 (m) Construction and operation of low-cost or  
12 moderate-cost rental housing projects and the purchase  
13 and improvement of land for housing development, in  
14 accordance with the National Housing Act. The aggregate  
15 so invested may not exceed 5 per cent of the company's  
16 total assets in Canada.

17 (n) Loans to policyholders on the security of  
18 the company's policies.

19 (o) Other investments not specifically authorized  
20 by the Acts, in an aggregate amount not exceeding 5 per  
21 cent of the company's total assets.

22 The Acts also provide that:

23 (p) No investment may be made in any security  
24 on which payment of principal or interest is in default.

25 (q) No insurance company may invest its life  
26 insurance funds in the shares of any other company trans-  
27 acting the business of life insurance.

28 (r) No insurance company may invest in more than  
29 30 per cent of the shares of any one corporation, nor  
30 may it invest more than 15 per cent of its assets in common



record that would qualify its debentures (see item (e) above  
and the lease requires repayment of at least 85 per cent  
of the amount invested within the period of the lease;  
in any case, this amount should be repaid in not more  
than 10 years.  
(k) Real estate for its own use. Real estate  
acquired through foreclosure of mortgage loans does not  
qualify as an asset after a limited period of years.  
(l) Ground rents.  
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(q) No insurance company may invest its life  
insurance funds in the shares of any other company trans-  
acting the business of life insurance.  
(r) No insurance company may invest in more than  
30 per cent of the shares of any one corporation, nor  
may it invest more than 15 per cent of its assets in com-





1 shares.

2 (s) A company may not invest more than 10 per cent  
3 of its assets in income-producing real estate.

4 (t) No insurance company may make a loan to any  
5 of its directors or officers or to the wife or child  
6 of any such director or officer, except on the security  
7 of their own life insurance policies.

8 (u) No insurance company may lend to any  
9 corporation if more than one-half of the shares of the  
10 capital stock of that corporation are owned by any  
11 director or officer of such insurance company or the wife  
12 or child of any such director or officer or by any  
13 combination of such persons.

14 4.11 The provincial insurance laws also contain  
15 provisions governing investment of life insurance funds  
16 held by provincial companies.

17 4.12 The investments in Canada of a non-resident  
18 company that are deposited or vested in trust under one  
19 of the Insurance Acts (and these must at least equal  
20 the company's liabilities in Canada) are subject to the  
21 restrictions of those Acts. Investments not held in trust  
22 are subject only to any applicable restrictions in the  
23 laws of the country of origin of the non-resident company.

24 4.13 The so-called "basket" clause referred to in  
25 item (o) above permits investment in assets that do  
26 not meet the specific eligibility tests. Some may be new  
27 types of investment that may in time be specifically  
28 recognized. Some will qualify in due course under the  
29 existing provisions as, for instance, they acquire an  
30 earnings or dividend record. The clause does not, however,



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of the Insurance Acts (and these must at least equal

the company's liabilities in Canada) are subject to the

restrictions of those Acts. Investments not held in trust

are subject only to any applicable restrictions in the

laws of the country of origin of the non-resident company.

4.13 The so-called "basket" clause referred to in

item (c) above permits investment in assets that do

not meet the specific eligibility tests. Some may be new

types of investment that may in time be specifically

recognized. Some will qualify in the course under the

existing provisions as, for instance, they acquire an

earnings or dividend record. The clause does not, however,



1 permit investment in mortgage loans in excess of 66-2/3  
2 per cent of the value of the property (item (i) above)  
3 nor does it ease any of the restrictions in items (p)  
4 to (u).

5 4.14 Within this framework there exists ample  
6 room for a significant variation in the conduct of  
7 investment operations by the individual companies as they  
8 attempt to achieve their investment objectives on behalf  
9 of their policyholders. From the viewpoint of the economy  
10 participation is possible in almost every important area  
11 without severe limitation.

12  
13 Legislative Changes in 1961

14 4.15 The investment provisions of the Insurance  
15 Acts are kept under constant review by the life insurance  
16 companies and by the supervisory authorities and as the need  
17 arises amendments are proposed thereto. The investment  
18 provisions in the federal Acts were revised substantially  
19 both in 1950 and in 1961. The provincial statutes have  
20 been amended from time to time to reflect changing  
21 conditions.

22 4.16 The major changes made in the investment  
23 provisions of the federal law in 1961 were the increase  
24 in the valuation limit on mortgages from 60 per cent  
25 to 66-2/3 per cent, the increase from 3 per cent to 5 per  
26 cent on non-specified investments, and the increase from  
27 5 per cent to 10 per cent on income-producing real estate.

28 4.17 The amendments also provided that a segregated  
29 fund must be maintained for policies the reserves for  
30 which "vary in amount depending upon the market value





...in excess of 66 2/3

...

...

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been amended from time to time to reflect changing

conditions.

4.16 The major changes made in the investment

provisions of the Federal law in 1961 were the increase

in the valuation limit on mortgages from 60 per cent

to 66 2/3 per cent, the increase from 5 per cent to 6 per

cent on non-specified investments, and the increase from

5 per cent to 10 per cent on income-producing real estate.

4.17 The amendments also provided that a mortgage

fund may be maintained for policies the reserves for

which "vary in amount depending upon the market value

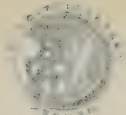


1 of a specified group of assets", namely, variable  
2 accumulation funds or variable annuities. Where such a  
3 fund is maintained, the 15 per cent limit on common share  
4 investments and the 10 per cent limit on income-producing  
5 real estate do not apply to the investments constituting  
6 the assets of the fund. However, the 5 per cent limit  
7 for non-specified investments does apply to each segregated  
8 fund.

9 4.18 During the discussions with the regulatory  
10 authorities prior to the amendments, the life insurance  
11 companies had also asked for relaxation of both the 15  
12 per cent limit on common stocks relating to their regular  
13 lines of business and the provisions governing the valuation  
14 of assets. On the first point, the Association submitted  
15 the following to the Superintendent of Insurance in 1959:

16 "Although the Canadian companies presently  
17 hold much less than 15 per cent of their  
18 assets in common shares there is a strong  
19 feeling, both within the companies and  
20 elsewhere, (e.g., the Report of the  
21 Royal Commission on Canada's Economic Prospects),  
22 that under appropriate market conditions the  
23 present limit might be too restrictive. Also,  
24 some of the non-resident companies are now  
25 finding the limit restrictive.

26 "Common share investments offer the  
27 companies an opportunity to participate in the  
28 growth of industrial and commercial corporations.  
29 Naturally, the returns on such investments  
30 must be attractive and at the moment other



of a specified group of assets", namely, variable accumulation funds or variable annuities. Where such a fund is maintained, the 15 per cent limit on common share investments and the 10 per cent limit on income-producing real estate do not apply to the investments constituting the assets of the fund. However, the 5 per cent limit for non-specified investments does apply to each segregated fund.

4.18 During the discussions with the regulatory authorities prior to the amendments, the life insurance companies had also asked for relaxation of both the 15 per cent limit on common stocks relating to their regular lines of business and the provisions governing the valuation of assets. On the first point, the Association submitted the following to the Superintendent of Insurance in 1959: "Although the Canadian companies presently

hold much less than 15 per cent of their assets in common shares there is a strong feeling, both within the companies and elsewhere, (e.g., the Report of the Royal Commission on Canada's Economic Prospects) that under appropriate market conditions the present limit might be too restrictive. Also, some of the non-resident companies are now

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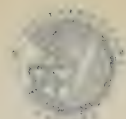




forms of investment are, generally speaking, relatively more attractive for life insurance companies. However, the companies desire to be in a position to take greater advantage than the 15 per cent limit would permit of such market opportunities as the future may present. The companies therefore propose that the limit be raised to 25 per cent."

4.19 On the matter of valuation, the existing law provides that the Canadian life insurance companies must value bonds, debentures and stocks at market values at year-end, except for redeemable securities not in default issued or guaranteed by Canada or any province, the United Kingdom or the United States, which are to be taken at amortized values. (The amortized value exception was added to the law in 1950). The value of all securities in the annual statement must not exceed in total this combination of market and amortized values. In view of the fact that the obligations of the life insurance company do not fall due at any one time and are of a long-term character, the majority of the companies believed that further relief from the constraints of year-end market valuation was desirable. They pointed out that a sharp shift in the market can result in substantial temporary encroachments on surplus funds. This tends to produce inequities as well as leading to unwarranted conclusions regarding surplus depletion in the incidence of distribution of surplus to policyholders.

4.20 The Association's 1959 submission on this point, based on the majority view, proposed two changes



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The Association's 1959 submission on this point, based on the majority view, proposed two changes



1 in the valuation standard: that (a) municipal securities  
2 of Canada, the United Kingdom and the United States of  
3 America and (b) securities of states of the United States  
4 should be added to the list of those securities for  
5 which amortized values are to be used, and that for all  
6 other securities and shares the average of the three  
7 most recent year-end market values should be used. It  
8 was suggested that the use of amortized values for  
9 municipal securities would reduce very greatly the  
10 volume of work in the Department and in many of the  
11 companies in arriving at year-end values. Another reason  
12 put forward was that central, provincial and state govern-  
13 ments had assumed increasing responsibility for municipal  
14 financing in all three countries and that this has tended  
15 to raise the status of these securities. Also, it was  
16 observed that there had been some very sharp, temporary  
17 changes in the market values of corporate securities  
18 and shares in recent years and that the market price  
19 at any one point of time does not necessarily reflect  
20 the intrinsic soundness of the securities or shares.  
21 The use of an average of three year-end market values,  
22 it was believed would give a more accurate picture of  
23 the long-term value of corporate securities and shares  
24 and would give the companies time to adjust their balance  
25 sheets to new situations.

26 4.21 The minority view was that any extension  
27 of amortized values was likely to inhibit trading  
28 operations because the companies, under the discipline  
29 of market values, are less likely to be concerned about  
30 realized losses on sale.





of the United States and the United States of America and (b) securities of states of the United States should be added to the list of those securities for which amortized values are to be used, and that for all other securities and shares the average of the three most recent year-end market values should be used. It was suggested that the use of amortized values for municipal securities would reduce very greatly the volume of work in the Department and in many of the companies in arriving at year-end values. Another reason put forward was that central, provincial and state governments had assumed increasing responsibility for municipal financing in all three countries and that this has tended to raise the status of these securities. Also, it was observed that there had been some very sharp, temporary changes in the market values of corporate securities and shares in recent years and that the market price at any one point of time does not necessarily reflect the intrinsic soundness of the securities or shares. The use of an average of three year-end market values, it was believed would give a more accurate picture of the long-term value of corporate securities and shares and would give the companies time to adjust their balance sheets to new situations.

4.21 The minority view was that any expansion

of amortized values was likely to inhibit trading operations because the companies, under the discipline of market values, are less likely to be concerned about realized losses on sale.



1 4.22 The federal authorities were disposed not  
2 to ease the 15 per cent common stock limit or alter the  
3 valuation provisions at that time. Their decision was  
4 to some extent tied in with their willingness to remove  
5 the limits on common stocks and income-producing real  
6 estate for segregated funds.





## LIFE INSURANCE ASSETS IN CANADA

- 4.23 Assets held for the protection of life insurance policyholders and annuitants in Canada totalled \$8-1/4 billion at the end of 1960 (see Table 3.k).
- 4.24 The total assets of the Canadian federally-registered companies amounted to \$8.6 billion. As mentioned previously, of this total \$2.9 billion were held outside Canada for the protection of policyholders and annuitants abroad; the remaining \$5.7 billion were held in Canada. Assets held in Canada by United States, British and other European companies against their life insurance operations here amounted to \$2.3 billion. Thus, total life insurance assets held in Canada by the federally-registered companies were \$8.0 billion. The total for provincial companies was \$250 million.
- 4.25 Table 4.c shows the growth in the assets of the federally-registered companies since 1935 and analyses those assets by broad investment categories.

Table 4.c

Life Insurance Assets Held in Canada by Federally-Registered Companies  
(000,000 omitted)

End of Year	Bonds	Stocks	Mortgage Loans	Real Estate	Policy Loans	Cash	Other Assets <sup>x</sup>	Total
1935	\$ 918**	\$ 158	\$ 348	\$ 76	\$ 239	\$ 26	\$ 63	\$1,828
1940	1,317	179	351	77	210	26	60	2,220
1945	2,222	101	280	36	152	28	67	2,886
1950	2,710	131	769	58	178	50	101	3,997
1951	2,707	131	978	69	199	43	109	4,236
1952	2,791	143	1,111	97	213	49	118	4,522
1953	2,902	153	1,297	110	225	40	131	4,858
1954	3,040**	174	1,519	135	240	35	83	5,226
1955	3,052**	206	1,812	157	250	36	86	5,599
1956	3,078**	221	2,120	183	270	41	96	6,009
1957	3,257**	215	2,367	223	295	47	107	6,511
1958	3,393**	235	2,529	250	305	54	167*	6,933
1959	3,625**	241	2,787	267	323	42	189*	7,474
1960	3,876**	246	3,011	285	344	49	196*	8,007

<sup>x</sup>The 1954 and later figures for "Other Assets" are on a revised basis due to changes in the annual statement form.

\*Includes life companies' own stock purchased under mutualization plans.

\*\*The breakdown for bonds can be provided only for 1935 and 1954 and later years. Data required for the analysis for the years 1936-53 are not readily available:

	<u>1935</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Gov't of Canada	\$ 273	\$ 840	\$ 783	\$ 598	\$ 538	\$ 557	\$ 617	\$ 699
Provincial	222	354	354	389	415	414	462	526
Municipal-Canadian	205	328	374	399	427	456	507	547
Corporate-Canadian	150	1,407	1,449	1,600	1,749	1,858	1,924	1,983
Foreign	68	111	92	92	128	108	115	121
	<u>\$ 918</u>	<u>\$3,040</u>	<u>\$3,052</u>	<u>\$3,078</u>	<u>\$3,257</u>	<u>\$3,393</u>	<u>\$3,625</u>	<u>\$3,876</u>

# LIFE INSURANCE ASSETS IN CANADA

Assets held for the protection of life insurance policyholders and annuitants in Canada totalled \$8.14 billion at the end of 1980 (see Table 3.1).

The total assets of the Canadian federally-regulated companies amounted to \$8.6 billion. As mentioned previously, of this total \$2.9 billion were held outside Canada for the protection of policyholders and annuitants abroad; the remaining \$5.7 billion were held in Canada. Assets held in Canada by United States, British and other European companies against their life insurance operations here amounted to \$2.3 billion. Thus, total life insurance assets held in Canada by the federally-regulated companies were \$8.0 billion. The total for provincial companies was \$250 million.

Table 4.1 shows the growth in the assets of the federally-regulated companies since 1955 and analyses those assets by broad investment categories.

Life Insurance Assets Held in Canada by Federally-Regulated Companies (000,000 omitted)

Year	Real Estate	Mortgages	Policy Loans	Other
1955	\$ 158	\$ 283	\$ 233	\$ 63
1960	179	351	210	60
1965	107	250	152	67
1970	131	269	178	101
1975	131	278	199	103
1980	142	1,111	213	118
1985	153	1,267	252	131
1990	174	1,399	240	83
1995	206	1,312	250	86
2000	221	2,120	270	96
2005	215	2,327	292	107
2010	241	2,797	323	130*
2015	246	3,011	344	166*

\*The 1974 and later figures for "Other Assets" are on a revised basis due to changes in the annual statement form.

\*\*The breakdown for bonds can be provided only for 1955 and 1974 and later years. Data required for the analysis for the years 1955-74 are not readily available.

Year	Gov't of Canada	Provincial	Municipal-Canadian	Foreign
1955	\$ 273	22	202	68
1960	380	354	258	111
1965	473	354	374	95
1970	508	415	399	95
1975	538	414	407	103
1980	557	469	456	115
1985	617	522	507	121

- 4.26 The average annual rate of growth for each five-year period since 1935 has been increasing. This is set forth in Table 4.d.

Table 4.d

Growth of Life Insurance Assets Held in Canada

(Federally-Registered Companies)

<u>Period</u>	<u>Increase in Assets (000,000)</u>	<u>Rate of Annual Increase</u>
1936-40	\$ 392	4.0 %
1941-45	666	5.4
1946-50	1,111	6.7
1951-55	1,602	7.0
1956-60	2,408	7.4
Total	\$ 6,179	6.1

- 4.27 Table 4.e shows the net change in invested assets by category for these 5-year periods.

Table 4.e

Net Change in Invested Assets Held in Canada

(Federally-Registered Companies)

(000,000 omitted)

	<u>1936-40</u>	<u>1941-45</u>	<u>1946-50</u>	<u>1951-55</u>	<u>1956-60</u>
Bonds	\$ 399	\$ 905	\$ 488	\$ 342	\$ 824
Stocks	21	- 78	30	75	40
Mortgage Loans	3	- 71	489	1,043	1,199
Real Estate	1	- 41	22	99	128
Policy Loans	- 29	- 58	26	72	94
Cash	-	2	22	- 14	13
Change in Invested Assets	\$ 395	\$ 659	\$ 1,077	\$ 1,617	\$ 2,298

- 4.28 In the period 1936 to 1940, the net increase in the life insurance companies' investments went mainly into bonds, as other types of investment were either not available in sufficient quantity or were not regarded as suitable from a quality viewpoint. The relative inactivity in the construction field is reflected in the minor changes in the mortgage and real estate categories. There was some reduction in the high level of policy loans that were outstanding as a result of the depression.
- 4.29 The years 1941 to 1945 reflect the channelling of not only new funds but also repayments on account of all other categories into war loans.



increasing. This is set forth in Table 4.5.

Rate of Annual Increase	Assets in Assets (000,000)
1930-40	\$ 302
1941-45	688
1946-50	1,151
1951-55	1,008
1956-60	2,108
Total	\$ 5,157

Table 4.6 shows the net change in invested assets by category for three 5-year periods.

Table 4.7  
Net Change in Invested Assets Held in Canada

(000,000 omitted)				
Assets	\$ 302	\$ 688	\$ 1,151	\$ 2,108
Real Estate	21	30	72	138
Mortgage Loans	3	41	1,008	1,151
Policy Loans	1	22	68	108
Other	-	25	75	117
Total	-	22	14	12
Assets	\$ 302	\$ 688	\$ 1,151	\$ 2,108

Table 4.8 In the period 1936 to 1940, the net increase in the life insurance

companies' investments went mainly into bonds, as other types of investment were either not available in sufficient quantity or were not regarded as suitable from a quality viewpoint. The relative inactivity in the construction field is reflected in the minor changes in the mortgage and real estate categories. There was some reduction in the high level of policy loans that were outstanding as a result of the depression.

Table 4.9 The years 1941 to 1945 reflect the channeling of not only new funds

In 1945 bond investments accounted for 77% of assets while mortgages had fallen to 10%. Figures are not available showing the Government of Canada bonds held in Canada by the life insurance companies during the war period. However, other figures will illustrate the extent of the companies' war-financing. At the end of 1939 the Canadian companies held \$269 million in federal government bonds - 18% of their Canadian assets. By the end of 1946 these figures had risen to \$1,229 million and 54% respectively. Government of Canada bonds held by all life insurance companies rose from \$525 million at the end of 1939 to \$2,265 million at the end of 1946.

- 4.30 During the post-war periods, although new funds have been channelled into all categories of invested assets, the emphasis placed on mortgage loans and in the last two periods on real estate is apparent in Table 4.e as the companies have endeavoured to regain a larger measure of diversification.
- 4.31 Changes in the percentage distribution of assets is shown in Table 4.f.

Table 4.f

Life Insurance Assets Held in Canada by Federally-Registered Companies  
Percentages in Various Categories

<u>End of Year</u>	<u>Bonds</u>	<u>Stocks</u>	<u>Mortgage Loans</u>	<u>Real Estate</u>	<u>Policy Loans</u>	<u>Cash</u>	<u>Other Assets</u>	<u>Total</u>
1935	50.1**	8.7	19.0	4.2	13.1	1.4	3.5	100.0
1940	59.3	8.0	15.8	3.5	9.5	1.2	2.7	100.0
1945	77.0	3.5	9.7	1.2	5.3	1.0	2.3	100.0
1950	67.8	3.3	19.2	1.5	4.5	1.2	2.5	100.0
1951	63.9	3.1	23.1	1.6	4.7	1.0	2.6	100.0
1952	61.7	3.2	24.6	2.1	4.7	1.1	2.6	100.0
1953	59.7	3.2	26.7	2.3	4.6	.8	2.7	100.0
1954	58.2**	3.3	29.1	2.5	4.6	.7	1.6	100.0
1955	54.5**	3.7	32.4	2.8	4.5	.6	1.5	100.0
1956	51.2**	3.7	35.3	3.0	4.5	.7	1.6	100.0
1957	50.0**	3.3	36.4	3.4	4.5	.8	1.6	100.0
1958	48.9**	3.4	36.5	3.6	4.4	.8	2.4*	100.0
1959	48.5**	3.2	37.3	3.6	4.3	.6	2.5*	100.0
1960	48.4**	3.1	37.6	3.6	4.3	.6	2.4*	100.0

\* Includes life companies' own stock purchased under mutualization plans.

\*\* The breakdown for bonds is available only for the following years:

	<u>1935</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Gov't of Canada	14.9	16.1	14.0	10.0	8.3	8.0	8.3	8.7
Provincial	12.1	6.8	6.3	6.5	6.4	6.0	6.2	6.6
Municipal - Canadian	11.2	6.3	6.7	6.6	6.5	6.6	6.8	6.8
Corporate - Canadian	8.2	26.9	25.9	26.6	26.8	26.8	25.7	24.8
Foreign	3.7	2.1	1.6	1.5	2.0	1.5	1.5	1.5
	50.1	58.2	54.5	51.2	50.0	48.9	48.5	48.4

4.31 Changes in the percentage distribution of assets is shown in Table A.6.2, measure of diversification.

in Table A.6 as the companies have endeavored to register a larger mortgage loans and in the last two periods on real estate is significant into all categories of invested assets, the emphasis placed on During the post-war periods, although new funds have been channeled to \$2,805 million at the end of 1964.

life insurance companies rose from \$255 million at the end of 1939 million and 74% respectively. Government of Canada bonds held by all assets. By the end of 1964 these figures had risen to \$1,823 held \$255 million in federal government bonds - 18% of their Canadian companies' war-financing. At the end of 1939 the Canadian companies' war period. However, other figures will illustrate the extent of the assets held in Canada by the life insurance companies during

Table A.6.2

Percentage distribution of assets by type

End of Year	Bonds	Stocks	Mortgage Loans	Real Estate	Other Assets	Gov't Assets	Total
1960	48.4**	3.1	37.6	3.6	4.3	2.8*	100.0
1959	48.5**	3.6	37.3	3.6	4.3	2.7*	100.0
1958	48.9**	3.4	36.5	3.6	4.4	2.7*	100.0
1957	50.0**	3.3	36.4	3.4	4.5	2.8	100.0
1956	51.2**	3.7	35.3	3.0	4.7	1.7	100.0
1955	51.5**	3.7	35.2	3.0	4.7	1.7	100.0
1954	56.5**	3.3	33.1	2.8	4.5	1.5	100.0
1953	59.7	3.5	33.7	2.3	4.6	2.7	100.0
1952	61.7	3.5	34.6	2.1	4.7	2.6	100.0
1951	63.3	3.1	33.1	1.8	4.7	2.6	100.0
1950	77.0	3.2	9.7	1.2	5.3	2.3	100.0

\*\* The breakdown for bonds is available only for the following years:

Corporate - Canadian	Municipal - Canadian	Provincial	Gov't of Canada
1935	11.2	12.1	14.9
1936	11.2	12.1	14.9
1937	11.2	12.1	14.9
1938	11.2	12.1	14.9
1939	11.2	12.1	14.9
1940	11.2	12.1	14.9
1941	11.2	12.1	14.9
1942	11.2	12.1	14.9
1943	11.2	12.1	14.9
1944	11.2	12.1	14.9
1945	11.2	12.1	14.9
1946	11.2	12.1	14.9
1947	11.2	12.1	14.9
1948	11.2	12.1	14.9
1949	11.2	12.1	14.9
1950	11.2	12.1	14.9





LIFE INSURANCE COMPANY INVESTMENT FLOWS

Acquisitions

4.32 Table 4.b. shows the volume, trend and derivation of life insurance saving in Canada for the period 1950-60. In order to show the other side of the coin, namely, the investment activities of the industry in Canada during the period, it has been necessary to adopt the device of the statistical sample. The following material is based on a study of the life insurance companies that have reported their investment transactions to the Association since 1952 for transmission to the Bank of Canada. In 1960 these companies accounted for 76 per cent of the assets held in Canada by all companies. The broad trends evident in the investment operations of these companies, we believe, are representative of the industry as a whole and the sample is sufficiently large and representative to permit broad judgments to be made of the relationship of the life insurance industry to the financial system.

4.33 Table 4.g portrays the acquisition of new Canadian investments by this group of companies since 1951. These figures are about as close a measure of the gross investment activities of the industry in Canada as available data permit.

4.34 Even this measure of life insurance company investment activities has certain important limitations. Acquisition data include Treasury Bills and other short-term paper which may be turned over several times in the course of a year. This tends to overstatement. There also exists some variation in the companies' reporting



LIFE INSURANCE COMPANY OF CANADA

4.32

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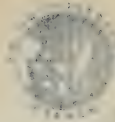


1 methods which, in effect, may cause certain non-cash  
2 items to be included in the figures. Another qualification  
3 is the inclusion of exchanges of one form of security  
4 for another of the same issuer on a negotiated basis  
5 and similar double-counting arises with regard to  
6 renegotiated mortgage commitments.

7 4.35 Despite these several limitations, an  
8 examination of the industry's investment activities  
9 from this viewpoint does permit the formation of a more  
10 rounded appreciation of the magnitude of its involvement  
11 in the various segments of the capital market.

12 4.36 The development and growth of the money  
13 market in Canada during the 1950's greatly increased  
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19 acquisitions also.





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market in Canada during the 1950's greatly increased the participation by the companies in the short-term market. Although during the period the industry substantially reduced its holdings in Government of Canada securities (see Table 5.K), the data in Table 4.G indicate that particularly from 1954 on there were substantial repurchases also.

Table 4.g

A.68

Gross Acquisitions of New Canadian Investments

(12 Companies holding 76% of Life Insurance Assets in Canada)

(000,000 omitted)

Category of Investment	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Gov't of Canada Securities *	\$ 30.4	\$ 45.4	\$331.2	\$282.9	\$271.6
Provincial Bonds *	41.1	26.8	72.2	46.0	54.0
Municipal Bonds *	33.1	25.2	31.3	42.9	48.3
Corporate & Other Bonds	171.8	227.9	173.9	130.1	236.7
Preferred & Common Stocks	7.2	8.7	6.0	12.7	8.2
Mortgage Loans	220.7	273.0	357.1	443.2	478.6
Real Estate	16.8	15.7	29.7	28.9	30.5
Policy Loans	49.1	51.0	55.6	54.4	61.8
<b>TOTAL</b>	<u>\$570.2</u>	<u>\$673.7</u>	<u>\$1,057.0</u>	<u>\$1,041.1</u>	<u>\$1,189.7</u>

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Gov't of Canada Securities *	\$160.5	\$552.6	\$328.8	\$361.8	\$328.8
Provincial Bonds *	54.7	33.2	62.4	84.2	140.7
Municipal Bonds *	34.8	37.0	53.2	51.1	66.8
Corporate & Other Bonds	183.5	200.6	208.9	245.2	275.2
Preferred & Common Stocks	10.3	10.5	13.7	10.0	32.0
Stock purchased for Mutualization	-	65.1	43.1	13.2	11.3
Mortgage Loans	397.4	372.7	446.3	468.2	542.4
Real Estate	45.8	32.8	22.5	30.1	18.9
Policy Loans	71.0	66.2	70.7	77.7	77.7
<b>TOTAL</b>	<u>\$958.0</u>	<u>\$1,370.7</u>	<u>\$1,249.6</u>	<u>\$1,341.5</u>	<u>\$1,493.8</u>

Source - C.L.I.O.A.

\* Includes guaranteed bonds.





- 4.37 During the period the life companies' purchase of provincial and municipal bonds was relatively stable from year to year until 1959 when the volume of purchases began to show an increase. The normal determinants of this investment are the interest rates available in this area relative to other forms of bond investment, call provisions, the availability or volume of new offerings and the credit standing of the individual borrowers.
- 4.38 During the period corporate bonds were purchased in relatively large amounts. Again no clear trend is apparent although, as with the provincial and municipal categories, buying increased notably since 1959. Relative attractiveness in terms of yield, availability and credit standing determine the industry's approach to this area of the market as well.

Net Investment Transactions

- 4.39 During the period reviewed in Table 4.g total acquisitions by these companies tended to aggregate about three times the value of total net investment. If purchases of federal government debt are excluded, since they include substantial turnover in the short-term market, a more meaningful measure of the relationship between gross purchases and net new investment to the medium- and long-term markets may be obtained. This is indicated in Table 4.h.

Table 4.h

Gross Acquisitions of New Canadian Investments  
related to Net Canadian Investment

(12 Companies holding 76% of Life Insurance Assets in Canada)

Year	A	B	C		
	Total Acquisitions (000,000)	Total Acquisitions excluding Federal Governments (000,000)	Total Net Investment (000,000)	$\frac{A}{C}$	$\frac{B}{C}$
1952	\$ 570	\$ 540	\$ 220	2.6	2.4
1953	674	629	265	2.7	2.4
1954	1,057	726	284	3.7	2.5
1955	1,041	758	335	3.1	2.3
1956	1,190	918	356	3.3	2.6
1957	958	798	314	3.1	2.5
1958	1,366	813	351	3.9	2.3
1959	1,250	920	415	3.0	2.2
1960	1,341	979	432	3.1	2.3
1961	1,494	1,165	499	3.0	2.3

During the period the life companies' purchase of provincial and municipal bonds was relatively stable from year to year until 1959 when the volume of purchases began to show an increase. The normal determinants of this investment are the interest rates available in this area relative to other forms of bond investment, call provisions, the availability or volume of new offerings and the credit standing of the individual borrowers.

During the period corporate bonds were purchased in relatively large amounts. Again no clear trend is apparent although, as with the life companies, relative attractiveness in terms of yield, availability and credit standing determine the industry's approach to this area of the market as well.

Net Investment Transactions

During the period reviewed in Table 4.2 total acquisitions by these companies tended to aggregate about three times the value of total net investment. If purchases of federal government debt are excluded, since they include substantial turnover in the short-term market, a more meaningful measure of the relationship between gross purchases and net new investment to the medium- and long-term markets may be obtained. This is indicated in Table 4.3.

Table 4.3  
Gross Acquisitions of New Canadian Investments

(Life Companies Holding 75% of Life Insurance Assets in Canada)

Year	Total Acquisitions ('000,000)	Total Net Investment ('000,000)	Total Acquisitions excluding Federal Government ('000,000)	
			A	B
1952	\$ 570	\$ 350	2.6	2.4
1953	644	385	2.7	2.4
1954	700	400	2.8	2.5
1955	1,041	335	3.1	2.3
1956	1,130	356	3.3	2.6
1957	1,130	374	3.1	2.3
1958	1,130	381	3.3	2.3
1959	1,130	415	3.0	2.3
1960	1,130	432	3.1	2.3
1961	1,130	499	3.0	2.3

4.40 Net investment transactions by twelve of the major companies in Canada for each of the years 1952-61 are shown in Table 4.1. This table displays the net flow of funds quarter by quarter into the main investment categories. The predominant position occupied by the mortgage market as an outlet for net new money is illustrated in Table 4.j. During the period the major companies channeled between 50% and 85% of new funds into this category. Bonds which were the next most important area of net new investment are also shown.

Table 4.1

Net Canadian Investment Transactions  
Major Categories

(12 Companies holding 76% of Life Insurance Assets in Canada)

(000,000 omitted)

Year and Quarter	Bonds	Mortgages	Stocks	Real Estate	Policy Loans	Total Net Investment
1952 I	\$ 34.5	\$13.6	\$ - .8	\$14.3	\$ 2.9	\$ 54.5
II	28.9	22.8	1.2	4.9	4.1	61.9
III	3.0	38.0	-.2	3.9	3.2	47.9
IV	13.7	37.8	.1	2.3	1.5	55.4
	80.1	112.2	.3	15.4	11.7	219.7
1953 I	58.1	25.2	- 1.6	2.6	2.2	86.5
II	8.8	36.5	2.3	3.6	3.1	54.3
III	20.2	42.3	-.5	4.0	2.8	68.8
IV	.8	46.5	1.7	4.0	2.0	55.0
	87.9	150.5	1.9	14.2	10.1	264.6
1954 I	36.1	29.9	- 1.5	3.0	3.0	70.5
II	9.0	42.6	-.8	7.2	3.8	61.8
III	- 7.4	70.0	- 2.4	7.2	3.0	70.4
IV	- 9.8	77.8	1.5	9.7	2.3	81.5
	27.9	220.3	- 3.2	27.1	12.1	284.2
1955 I	15.5	50.3	.9	10.3	2.4	79.4
II	14.8	56.6	- 1.2	4.9	2.6	77.7
III	-19.2	96.4	- 2.5	7.2	1.9	83.8
IV	5.5	81.5	4.0	1.9	1.2	94.1
	16.6	284.8	1.2	24.3	8.1	335.0
1956 I	50.5	49.6	.4	4.8	2.7	108.0
II	8.7	61.0	1.6	8.5	5.4	67.8
III	-19.1	95.2	-.4	4.6	4.7	85.0
IV	- 2.9	86.7	-.4	8.3	3.7	95.4
	19.8	292.5	1.2	26.2	16.5	356.2
1957 I	33.8	45.7	1.4	3.9	5.4	90.2
II	5.9	52.5	-.1	14.1	5.6	78.0
III	- 2.1	63.1	-.7	6.7	4.9	71.9
IV	7.2	46.0	2.0	16.7	2.8	74.7
	44.8	207.3	2.6	41.4	18.7	314.8

Sources: C.L.I.O.A.

(continued)



Transactions by twelve of the major companies in Canada  
 years 1952-51 and shown in Table 4.1. This table  
 not flow of funds quarter by quarter into the main  
 investment categories. The predominant position occupied by the  
 mortgage market as an outlet for net new money is illustrated in  
 Table 4.1. During the period the major companies channelled between  
 50% and 85% of new funds into this category. Bonds which were the  
 next most important area of net new investment are also shown.

Net Canadian Investment Transactions  
 Major Categories  
 (12 Companies Holding 75% of Life Insurance Assets in Canada)  
 (000,000 omitted)

Year and Quarter	Real	Policy	Total Net
1952 I	\$ 34.5	\$ 6.9	\$ 41.4
II	26.9	4.1	31.0
III	3.0	3.2	6.2
IV	13.7	1.2	14.9
1953 I	30.1	11.7	41.8
II	112.2	12.4	124.6
III	28.1	2.2	30.3
IV	8.8	2.1	10.9
1954 I	20.2	2.0	22.2
II	46.2	4.0	50.2
III	1.7	2.0	3.7
IV	87.9	10.1	98.0
1955 I	120.2	1.2	121.4
II	28.9	3.0	31.9
III	12.6	3.0	15.6
IV	17.8	2.3	20.1
1956 I	220.2	12.1	232.3
II	20.7	10.3	31.0
III	36.6	4.0	40.6
IV	96.4	1.9	98.3
1957 I	61.2	2.4	63.6
II	12.2	2.6	14.8
III	12.2	1.9	14.1
IV	2.2	1.2	3.4
1958 I	12.6	2.3	14.9
II	20.2	2.7	22.9
III	61.0	2.4	63.4
IV	92.2	3.7	95.9
1959 I	20.2	2.2	22.4
II	1.2	1.2	2.4
III	4.8	3.9	8.7
IV	22.2	1.4	23.6
1960 I	42.7	3.9	46.6
II	22.2	1.4	23.6
III	22.2	1.4	23.6
IV	22.2	1.4	23.6

Table 4.1 (continued)

Net Canadian Investment Transactions  
Major Categories

(12 Companies holding 76% of Life Insurance Assets in Canada)

(000,000 omitted)

Year and Quarter	Bonds	Mortgages	Stocks		Real Estate	Policy Loans	Total Net Investment
			Other	Own*			
1958 I	\$71.0	\$ 13.8	\$ 1.0	--	\$ 6.3	\$ 2.6	\$ 94.7
II	19.2	29.4	.4	\$44.0	7.6	2.7	103.3
III	- 4.6	48.6	- .7	3.1	6.4	2.6	55.4
IV	15.8	57.5	2.6	13.5	7.7	.1	97.2
	101.4	149.3	3.3	60.6	28.0	8.0	350.6
1959 I	102.1	15.0	1.6	.9	2.4	1.1	123.1
II	16.6	56.6	1.6	22.0	2.8	1.9	101.5
III	12.2	76.7	.9	14.8	3.8	5.4	113.8
IV	- 6.5	65.7	- .4	4.9	6.5	6.4	76.6
	124.4	214.0	3.7	42.6	15.5	14.8	415.0
1960 I	74.4	30.0	- .6	1.3	7.0	6.4	118.5
II	30.4	56.3	3.0	-	5.6	5.8	101.1
III	34.2	62.5	.7	7.8	5.2	4.3	114.7
IV	16.8	71.1	2.0	3.4	1.7	2.3	97.3
	155.8	219.9	5.1	12.5	19.5	18.8	431.6
1961 I	93.9	37.7	5.1	.1	5.6	3.2	145.6
II	25.9	62.4	7.2	-	2.1	3.8	101.4
III	24.6	71.2	4.6	7.8	2.5	3.2	113.9
IV	37.6	89.8	2.5	3.4	2.2	2.4	137.9
	182.0	261.1	19.4	11.3	12.4	12.6	498.8

Source: C.L.I.O.A.

\* Own stock purchased for mutualization. The differences between the 1958, 1959 and 1960 totals and those in Table 4.g are accounted for in the main by non-cash transactions.

Table 4.j

Net Canadian Investment Transactions - Bonds & Mortgages

(12 Companies holding 76% of Life Insurance Assets in Canada)

Year	Total Net Investment (000,000)	Net Investment in Mortgages (000,000)	% Mortgages to Total	Net Investment in Bonds (000,000)	% Bonds to Total
1952	\$ 220	\$ 112	50.9	\$ 80	36.4
1953	264	150	56.8	88	33.3
1954	284	220	77.5	28	9.9
1955	335	285	84.8	16	4.8
1956	356	292	82.0	20	5.6
1957	315	207	65.9	45	14.3
1958	351	149	42.5	101	28.8
1959	415	214	51.6	124	29.9
1960	432	220	50.9	155	35.9
1961	499	261	52.3	182	36.5

(100,000 omitted)

Year and Period	Net Investment in Mortgages	Net Investment in Bonds	Net Investment in Stocks	Net Investment in Other Assets	Total Net Investment
1958 I	\$17.0	\$13.8	\$1.0	--	\$31.8
II	18.5	14.5	1.7	3.1	37.8
III	18.8	15.2	1.7	1.7	37.4
IV	18.8	15.2	1.7	1.7	37.4
1959 I	101.4	149.3	3.3	60.6	320.6
II	102.1	150.0	1.6	2.4	326.1
III	102.6	150.6	1.6	2.4	326.6
IV	102.6	150.6	1.6	2.4	326.6
1960 I	104.1	151.0	3.7	12.2	370.0
II	104.1	151.0	3.7	12.2	370.0
III	104.1	151.0	3.7	12.2	370.0
IV	104.1	151.0	3.7	12.2	370.0
1961 I	152.8	209.9	2.1	12.2	477.0
II	152.8	209.9	2.1	12.2	477.0
III	152.8	209.9	2.1	12.2	477.0
IV	152.8	209.9	2.1	12.2	477.0

Source: C.I.I.O.A.

\* Own stock purchased for mutualization. The difference between the 1958, 1959 and 1960 totals and those in Table 1.4 are accounted for in the main by non-cash transactions.

Table 1.1

Net Canadian Investment Transactions - Bonds & Mortgages  
(As Companies Holding 1% or More of Assets in Canada)

Year	Total Net Investment	Net Investment in Mortgages	Net Investment in Bonds	Net Investment in Other Assets
1958	\$ 172	50.9	88	33.1
1959	150	52.8	88	9.4
1960	326	101.4	149.3	75.3
1961	477	152.8	209.9	114.1
1962	520	152.8	209.9	157.3
1963	520	152.8	209.9	157.3
1964	520	152.8	209.9	157.3
1965	520	152.8	209.9	157.3
1966	520	152.8	209.9	157.3
1967	520	152.8	209.9	157.3
1968	520	152.8	209.9	157.3
1969	520	152.8	209.9	157.3
1970	520	152.8	209.9	157.3
1971	520	152.8	209.9	157.3
1972	520	152.8	209.9	157.3
1973	520	152.8	209.9	157.3
1974	520	152.8	209.9	157.3
1975	520	152.8	209.9	157.3
1976	520	152.8	209.9	157.3
1977	520	152.8	209.9	157.3
1978	520	152.8	209.9	157.3
1979	520	152.8	209.9	157.3
1980	520	152.8	209.9	157.3
1981	520	152.8	209.9	157.3
1982	520	152.8	209.9	157.3
1983	520	152.8	209.9	157.3
1984	520	152.8	209.9	157.3
1985	520	152.8	209.9	157.3
1986	520	152.8	209.9	157.3
1987	520	152.8	209.9	157.3
1988	520	152.8	209.9	157.3
1989	520	152.8	209.9	157.3
1990	520	152.8	209.9	157.3
1991	520	152.8	209.9	157.3
1992	520	152.8	209.9	157.3
1993	520	152.8	209.9	157.3
1994	520	152.8	209.9	157.3
1995	520	152.8	209.9	157.3
1996	520	152.8	209.9	157.3
1997	520	152.8	209.9	157.3
1998	520	152.8	209.9	157.3
1999	520	152.8	209.9	157.3
2000	520	152.8	209.9	157.3
2001	520	152.8	209.9	157.3
2002	520	152.8	209.9	157.3
2003	520	152.8	209.9	157.3
2004	520	152.8	209.9	157.3
2005	520	152.8	209.9	157.3
2006	520	152.8	209.9	157.3
2007	520	152.8	209.9	157.3
2008	520	152.8	209.9	157.3
2009	520	152.8	209.9	157.3
2010	520	152.8	209.9	157.3
2011	520	152.8	209.9	157.3
2012	520	152.8	209.9	157.3
2013	520	152.8	209.9	157.3
2014	520	152.8	209.9	157.3
2015	520	152.8	209.9	157.3
2016	520	152.8	209.9	157.3
2017	520	152.8	209.9	157.3
2018	520	152.8	209.9	157.3
2019	520	152.8	209.9	157.3
2020	520	152.8	209.9	157.3
2021	520	152.8	209.9	157.3
2022	520	152.8	209.9	157.3
2023	520	152.8	209.9	157.3
2024	520	152.8	209.9	157.3
2025	520	152.8	209.9	157.3
2026	520	152.8	209.9	157.3
2027	520	152.8	209.9	157.3
2028	520	152.8	209.9	157.3
2029	520	152.8	209.9	157.3
2030	520	152.8	209.9	157.3



4.41 Net investment in bonds has followed a definite pattern during the period. Between 1952 and 1955 the amount of net investment in bonds by the companies showed an 80% decline. However, since 1957 net investment in this area has shown a marked increase. It should be noted, however, that this category encompasses all forms of bonds, including short-term Canadas. The movement within the "Bonds" category is shown in Table 4.k.

Table 4.k

Net Canadian Investment Transactions  
Classes of Bonds

(12 Companies holding 76% of Life Insurance Assets in Canada)

(000,000 omitted)

Year and Quarter	Gov't of Canada	Provincials	Municipals	Other	Total
1952 I	\$ - 10.4	\$ 13.1	\$ 8.9	\$ 22.9	\$ 34.5
II	- 7.9	4.3	5.7	26.8	28.9
III	- 5.1	- 5.0	3.5	9.6	3.0
IV	- 25.3	6.5	3.9	28.6	13.7
	<u>- 48.7</u>	<u>18.9</u>	<u>22.0</u>	<u>87.9</u>	<u>80.1</u>
1953 I	- 18.4	3.7	3.8	69.0	58.1
II	- 16.9	- 6.3	1.4	30.6	8.8
III	- .1	6.7	3.8	9.8	20.2
IV	- 8.9	- 2.9	1.7	10.9	.8
	<u>- 44.3</u>	<u>1.2</u>	<u>10.7</u>	<u>120.3</u>	<u>87.9</u>
1954 I	- 12.8	10.6	4.3	34.0	36.1
II	- 41.6	16.9	5.0	28.7	9.0
III	- 22.5	- 7.4	5.5	17.0	- 7.4
IV	- 19.8	- 4.9	2.1	12.8	- 9.8
	<u>- 96.7</u>	<u>15.2</u>	<u>16.9</u>	<u>92.5</u>	<u>27.9</u>
1955 I	- 6.6	9.6	5.5	7.0	15.5
II	- 9.7	- 2.8	2.0	25.3	14.8
III	- 3.3	- 5.1	3.3	-14.1	-19.2
IV	- 19.9	- 2.8	11.7	16.5	5.5
	<u>- 39.5</u>	<u>- 1.1</u>	<u>22.5</u>	<u>34.7</u>	<u>16.6</u>
1956 I	- 40.0	5.2	6.1	79.2	50.5
II	- 60.5	7.0	14.4	30.4	- 8.7
III	- 23.8	.7	3.5	.5	-19.1
IV	- 27.7	4.8	4.2	15.8	- 2.9
	<u>-152.0</u>	<u>17.7</u>	<u>28.2</u>	<u>125.9</u>	<u>19.8</u>
1957 I	- 12.1	6.5	8.9	30.5	33.8
II	- 11.7	- 5.1	1.8	24.5	5.9
III	- 5.9	- 4.8	.9	7.7	- 2.1
IV	- 21.7	13.5	5.3	10.1	7.2
	<u>- 51.4</u>	<u>10.1</u>	<u>13.3</u>	<u>72.8</u>	<u>44.8</u>

Net investment in bonds has followed a definite pattern during the period. Between 1952 and 1955 the amount of net investment in bonds by the companies showed an 80% decline. However, since 1957 net investment in this area has shown a marked increase. It should be noted, however, that this category encompasses all forms of bonds, including short-term Canadian. The movement within the "bonds" category is shown in Table 4.1.

Table 4.1

(12 Companies holding 10% of Life Insurance Assets in Canada)  
(000,000 omitted)

Year and Quarter	Gov't of Canada	Provincials	Municipals	Other	Total
1952 I	\$ - 10.4	\$ 13.1	\$ 8.9	\$ 25.9	\$ 34.3
II	- 7.9	4.3	2.1	26.6	26.9
III	- 2.1	- 2.0	3.2	2.2	3.0
IV	- 22.3	6.2	3.9	26.6	10.7
	- 49.7	16.9	22.0	87.9	80.1
1953 I	- 18.4	3.7	2.9	69.0	68.1
II	- 16.9	- 6.3	1.4	30.6	8.8
III	-	-	-	-	-
IV	- 8.9	- 5.9	1.7	10.9	1.2
	- 44.1	-	-	110.2	21.9
1954 I	- 12.8	10.6	4.3	34.0	36.1
II	- 42.6	16.9	2.0	28.7	2.0
III	- 22.2	- 7.4	2.2	17.0	- 1.6
IV	- 12.8	- 4.9	1.1	12.9	- 9.7
	- 98.7	12.2	16.9	92.2	27.9
1955 I	- 6.6	9.6	2.2	7.0	12.2
II	- 9.7	- 2.8	2.0	25.3	14.8
III	- 4.2	- 2.1	3.3	- 14.1	- 12.6
IV	- 12.9	1.9	14.7	16.2	3.2
	- 35.2	- 1.1	22.2	34.7	16.6
1956 I	- 40.0	2.2	6.1	19.2	20.2
II	- 40.2	7.0	14.4	30.4	- 5.7
III	- 22.8	7.7	3.2	2	- 19.1
IV	- 21.7	4.8	4.0	15.8	- 2.2
	- 122.0	17.7	28.2	125.9	19.8
1957 I	- 12.1	6.2	8.9	30.2	33.9
II	- 11.7	- 2.1	- 1.8	24.2	2.9
III	- 2.9	- 4.8	9	7.7	- 8.2
IV	- 22.2	12.2	2.3	10.2	7.2
	- 48.7	10.4	13.3	72.8	44.8

Table 4.k (continued)

Net Canadian Investment Transactions  
Classes of Bonds

(12 Companies holding 76% of Life Insurance Assets in Canada)

(000,000 omitted)

<u>Year and Quarter</u>	<u>Gov't of Canada</u>	<u>Provincials</u>	<u>Municipals</u>	<u>Other</u>	<u>Total</u>
1958 I	\$ 38.8	\$ - 1.1	\$ 4.6	\$ 28.7	\$ 71.0
II	- 5.9	- 4.3	2.3	27.1	19.2
III	- 14.4	- 5.4	- 1.1	16.3	- 4.6
IV	9.3	7.1	9.3	- 9.9	15.8
	<u>27.8</u>	<u>- 3.7</u>	<u>15.1</u>	<u>62.2</u>	<u>101.4</u>
1959 I	30.2	12.6	12.0	47.3	102.1
II	9.4	- 1.5	7.7	1.0	16.6
III	1.4	19.9	6.8	-15.9	12.2
IV	- 9.1	5.5	5.2	- 8.1	- 6.5
	<u>31.9</u>	<u>36.5</u>	<u>31.7</u>	<u>24.3</u>	<u>124.4</u>
1960 I	21.7	1.9	7.4	43.4	74.4
II	- 8.0	23.6	7.8	7.0	30.4
III	3.3	16.4	8.3	6.2	34.2
IV	40.1	- 6.3	- .8	-16.2	16.8
	<u>57.1</u>	<u>35.6</u>	<u>22.7</u>	<u>40.4</u>	<u>155.8</u>
1961 I	15.3	42.5	16.0	20.1	93.9
II	-10.8	16.6	- .1	20.2	25.9
III	- .3	7.1	6.7	11.1	24.6
IV	-15.8	33.5	13.1	6.8	37.6
	<u>-11.6</u>	<u>99.7</u>	<u>35.7</u>	<u>58.2</u>	<u>182.0</u>

Source: C.L.I.O.A.

4.42 During the period the life insurance companies were net sellers of Government of Canada bonds in every year except 1958-60, net buyers of municipal and corporate bonds in every year and net buyers of provincial bonds in every year except 1955 and 1958. The purpose behind this shift was to increase yield and gain diversification by category and geographically. Net investment in real estate increased in importance until 1957 but since that time has shown a significant decline.



Table 1  
Assets of Life Insurance Companies in Canada  
 (in thousands of dollars)  
 (1957-1960)

Year end	Gov't of Canada	Provincial	Municipal	Other	Total
I 1957	38.8	1.1	4.6	88.7	133.2
II 1958	39.9	1.1	4.6	87.1	132.7
III 1959	39.9	1.1	4.6	87.1	132.7
IV 1960	39.9	1.1	4.6	87.1	132.7
I 1957	38.8	1.1	4.6	88.7	133.2
II 1958	39.9	1.1	4.6	87.1	132.7
III 1959	39.9	1.1	4.6	87.1	132.7
IV 1960	39.9	1.1	4.6	87.1	132.7
I 1957	38.8	1.1	4.6	88.7	133.2
II 1958	39.9	1.1	4.6	87.1	132.7
III 1959	39.9	1.1	4.6	87.1	132.7
IV 1960	39.9	1.1	4.6	87.1	132.7
I 1957	38.8	1.1	4.6	88.7	133.2
II 1958	39.9	1.1	4.6	87.1	132.7
III 1959	39.9	1.1	4.6	87.1	132.7
IV 1960	39.9	1.1	4.6	87.1	132.7

Source: C.I.B.O.A.

During the period the life insurance companies were not sellers of Government of Canada bonds in every year except 1958-60, net buyers of municipal and corporate bonds in every year and net buyers of provincial bonds in every year except 1957 and 1958. The purpose behind this shift was to increase yield and gain diversification by increasing the proportion of bonds in the portfolio. This shift was shown in importance until 1957 but since that time has shown a significant decline.



1 4.43 Net increases in share holdings year by year  
2 absorbed an insignificant portion of net available funds.  
3 However, since 1955 a gradual increase in net new invest-  
4 ments in this area has occurred. The year 1961 showed  
5 a significant increase in stock purchases. In 1957  
6 legislation was enacted to enable a Canadian life insurance  
7 company to mutualize and a portion of investable funds  
8 has since been used for this purpose. This is shown  
9 in table 4.1 for the period 1958-61.

10 4.44 Throughout the period, policy loans have not  
11 required the use of a significant percentage of net  
12 available funds - not more than 5 per cent on the average.  
13 It appears that the principal determinant here is the  
14 degree of tightness in the credit environment. Tight  
15 money conditions have been accompanied by utilization  
16 of the contractual right of policyholders to take policy  
17 loans although the relatively minor movement suggests  
18 that policyholders use this avenue of credit as a last  
19 resort.

20 Flow of Funds for Investment in Canada

21 4.45 Table 4.1 illustrates the make-up of the net  
22 new funds available for investment in Canada during the  
23 period. It attempts to isolate two important elements -  
24 transfers from abroad and policy loans. No particular  
25 trend is apparent in the transfer series. During the  
26 10 years under review, however, these transfers have  
27 amounted to between 6 per cent and 15 per cent of net new  
28 funds invested in Canada. The year 1956 was an exception  
29 when transfers from abroad accounted for 23 per cent.  
30 This may have been due to the trend toward greater strength



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of the contractual right of policyholders to take policy

loans although the relatively minor movement suggests

that policyholders use this avenue of credit as a last

resort.

#### Flow of Funds for Investment in Canada

4.45 Table 4.1 illustrates the make-up of the net

new funds available for investment in Canada during the

period. It attempts to isolate two important elements -

transfers from abroad and policy loans. No particular

trend is apparent in the transfer series. During the

10 years under review, however, these transfers have

amounted to between 6 per cent and 15 per cent of net new

funds invested in Canada. The year 1956 was an exception

when transfers from abroad accounted for 27 per cent.

This may have been due to the trend toward greater strength





1 in the Canadian dollar at that time, the existence of  
2 large mortgage commitments in Canada and higher yield  
3 spreads between Canadian and United States securities  
4 relative to 1955.

5 4.46 The only autonomous demand factor affecting  
6 the disposition of new investment funds is the exercise  
7 by policyholders of their contractual right to borrow,  
8 but in the period under review they have absorbed  
9 a relatively unimportant percentage of total funds  
10 invested.

11 PROPORTION OF CAPITAL NEEDS MET BY THE LIFE  
12 INSURANCE INDUSTRY

13 4.47 The life insurance industry is responsible  
14 for channelling a large fraction of Canadian saving to  
15 meet the capital needs of the Canadian economy and in  
16 doing so is an active participant in most segments of  
17 the capital market.  
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 the disposition of new investment funds is the exercise  
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PROPORTION OF CAPITAL NEEDS MET BY THE LIFE  
 INSURANCE INDUSTRY

4.47 The life insurance industry is responsible  
 for channeling a large fraction of Canadian saving to  
 meet the capital needs of the Canadian economy and in  
 doing so is an active participant in most segments of  
 the capital market.

Table 4.1

A.76

Flow of Funds for Investment in Canada

(12 Companies Holding 76% of Life Insurance Assets in Canada)

(000,000 omitted)

Year and Quarter	Total Net Investment in Canada	Less Transferred from Abroad	Less Increase in Policy Loans	Net Flow
1952 I	\$54.5	\$ 2.6	\$ 2.9	\$ 49.0
II	61.9	8.7	4.1	49.1
III	47.9	+ 1.3	3.2	46.0
IV	55.4	5.9	1.5	48.0
	<u>219.7</u>	<u>15.9</u>	<u>11.7</u>	<u>192.1</u>
1953 I	86.5	+ 1.9	2.2	86.2
II	54.3	6.4	3.1	44.8
III	68.8	5.9	2.8	60.1
IV	55.0	1.0	2.0	52.0
	<u>264.6</u>	<u>11.4</u>	<u>10.1</u>	<u>243.1</u>
1954 I	70.5	1.1	3.0	67.4
II	61.8	3.8	3.8	54.2
III	70.4	8.1	3.0	59.3
IV	81.5	10.9	2.3	68.3
	<u>284.2</u>	<u>22.9</u>	<u>12.1</u>	<u>249.2</u>
1955 I	79.4	5.0	2.4	72.0
II	77.7	5.6	2.6	69.5
III	83.8	6.7	1.9	75.2
IV	94.1	18.2	1.2	74.7
	<u>335.0</u>	<u>35.5</u>	<u>8.1</u>	<u>291.4</u>
1956 I	108.0	27.5	2.7	77.8
II	67.8	+ .7	5.4	63.1
III	85.0	20.2	4.7	60.1
IV	95.4	35.5	3.7	56.2
	<u>356.2</u>	<u>82.5</u>	<u>16.5</u>	<u>257.2</u>
1957 I	90.2	12.5	5.4	72.3
II	78.0	7.3	5.6	65.1
III	71.9	.9	4.9	66.1
IV	74.7	+ .2	2.8	72.1
	<u>314.8</u>	<u>20.5</u>	<u>18.7</u>	<u>275.6</u>
1958 I	94.7	10.3	2.6	81.8
II	103.3	26.7	2.7	73.9
III	55.4	+ 10.8	2.6	63.6
IV	97.2	5.5	.1	91.6
	<u>350.6</u>	<u>31.7</u>	<u>8.0</u>	<u>310.9</u>
1959 I	123.1	7.2	1.1	114.8
II	101.5	8.8	1.9	90.8
III	113.8	10.5	5.4	97.9
IV	76.6	4.7	6.4	65.5
	<u>415.0</u>	<u>31.2</u>	<u>14.8</u>	<u>369.0</u>
1960 I	118.5	10.9	6.4	101.2
II	101.1	29.6	5.8	65.7
III	114.7	14.2	4.3	96.2
IV	97.3	6.2	2.3	88.8
	<u>431.6</u>	<u>60.9</u>	<u>18.8</u>	<u>351.9</u>

Source: C.L.I.O.A.

(continued)



... being 70% of life insurance assets in Canada)

(Ord. No. 000,000)

Table 4.1 (continued)

Year and Quarter	Total Net Investment in Canada	Less Transferred from Abroad	Less Increase in Policy Loans	Net Flow
1961 I	\$145.6	\$16.2	\$ 3.2	\$126.2
II	101.4	7.5	3.8	90.1
III	113.9	8.8	3.2	101.9
IV	137.9	15.8	2.4	119.7
	<u>498.8</u>	<u>48.3</u>	<u>12.6</u>	<u>437.9</u>

Source: C.L.I.O.A.

4.48 The importance of mortgages in the insurance companies' investment operations has been commented upon. Table 4.m provides another measure of the importance of the part played by the life insurance industry in the financing of housing.

Table 4.m

Life Insurance Company Participation in Residential Mortgages

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Lending Approvals For Residential Mortgages (1)	\$468	\$550	\$816	\$1,075	\$877	\$902	\$1,407	\$1,234	\$938	\$1,358
Lending Appro- vals by Life Companies	\$313	\$368	\$453	\$ 504	\$495	\$308	\$ 432	\$ 447	\$458	\$ 600
% Participation	67	67	56	47	56	34	31	36	49	44

Sources: Bank of Canada Statistical Summary and Canadian Housing Statistics, C.M.H.C.

- (1) Total approvals for residential mortgages is the sum of total mortgage loans approved by lending institutions and C.M.H.C. on new non-farm residential construction and all mortgage loans approved by lending institutions on existing non-farm residential property.

4.49 Although the percentage participation has declined from 67% to 44% between 1952 and 1961 and reached a low of 31% in 1958, the amount invested annually has increased from just over \$300 million to about \$600 million. The significant fact here is that the contribution the industry has made and continues to make is a vital one without which many housing units would not be financed and the home building industry would be severely handicapped to the detriment of the economy. The decline in the industry's relative participation only

Year and Quarter	Total Net Investment in Canada	Transferred from Abroad	Increase in Policy Loans	Net Flow
I 1961	\$142.6	\$16.2	\$ 3.8	\$126.2
II	101.4	7.5	3.8	90.1
III	113.9	8.8	3.2	101.9
	110.0	7.0	2.4	99.6
	110.0	7.0	2.4	99.6

4.48 The importance of mortgages in the insurance companies' investment operations has been commented upon. Table 4.48 provides another measure of the importance of the part played by the life insurance industry in the financing of housing.

(000,000 omitted)

1952 1953 1954 1955 1956 1957 1958 1959 1960 1961

	Participation	% of Total	Value by Life	Value by Life	Value by Life	Value by Life	Value by Life	Value by Life	Value by Life
1952	67	67	56	47	36	31	26	24	14

Sources: Bank of Canada Statistical Summary and Canadian Housing

(1) Total approvals for residential mortgages is the sum of total mortgage loans approved by lending institutions and C.M.H.C. on new non-term residential construction and all mortgage loans approved by lending institutions on existing non-term residential property.

4.49 Although the percentage participation has declined from 67% to 14% between 1952 and 1961 and reached a low of 3% in 1958, the amount invested annually has increased from just over \$300 million to about \$600 million. The significant fact here is that the contribution the industry has made and continues to make is a vital one without which many housing units would not be financed and the home building industry would be severely handicapped to the detriment of the economy. The decline in the industry's relative participation only



illustrates the fact that the industry's funds available for residential mortgage lending have not been able to keep pace with the total lending activity desired as is reflected in the total approvals.

- 4.50 A measure of the industry's investment contribution to two areas of the public sector of the economy is provided in Tables 4.n and 4.o which illustrate the degree of participation by the life insurance industry in the borrowings of the provincial and municipal governments. Capital needs served by investment in the securities of provincial and municipal governments include schools, roads, highways, utilities and other services of community living.

Table 4.n

Life Insurance Company Participation in Provincial Bond Issues

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Net New Issues of Provincial Direct & Guaranteed(1)	\$253	\$160	\$246	\$260	\$348	\$505	\$470	\$329	\$459	\$924
Net Purchases by Life Companies(2)	\$ 24	\$ 2	\$ 19	\$ -1	\$ 23	\$ 13	\$ -5	\$ 48	\$ 47	\$132
% Participation	10	1	8	-	7	3	-	15	10	14

Sources: (1) New Issue Data - Bank of Canada Statistical Summary.

- (2) Figures in Table 4.k adjusted on the basis of the premium income of the group of companies as a proportion of total premium income of all federally-registered companies.

Table 4.o

Life Insurance Company Participation in Municipal Bond Issues

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Net New Issues Municipal Direct & Guaranteed (1)	\$108	\$135	\$222	\$217	\$140	\$181	\$208	\$213	\$234	\$262
Net Purchases by Life Companies(2)	\$ 28	\$ 14	\$ 21	\$ 29	\$ 36	\$ 17	\$ 20	\$ 42	\$ 30	\$ 47
% Participation	26	10	10	13	26	9	9	20	13	18

Sources: (1) New Issue Data - Bank of Canada Statistical Summary

- (2) Figures in Table 4.k adjusted on the basis of the premium income of the group of companies as a proportion of total premium income of all federally-registered companies.

illustrates the fact that the industry's funds available for

residential mortgage lending have not been able to keep pace with the total lending activity desired as is reflected in the total approvals.

A measure of the industry's investment contribution to two areas of

the public sector of the economy is provided in Tables 4.11 and 4.12

which illustrate the degree of participation by the life insurance

industry in the borrowings of the provincial and municipal governments.

Capital needs served by investment in the securities of

provincial and municipal governments include schools, roads, highways,

airports and other public works.

# Life Insurance Company Participation in Provincial Bond Issues

(100,000 omitted)

1955	1956	1957	1958	1959	1960	1961
Net New Issues of						
Provincial Direct						
& Guaranteed(1)	\$253	\$160	\$206	\$260	\$348	\$202
Net Purchases by						
Life Companies(2)	\$ 24	\$ 2	\$ 19	\$ -1	\$ 23	\$ 13
& Participation	10	1	8	-	7	3
	10	10	12	10	12	10

Sources: (1) New Issue Data - Bank of Canada Statistical Summary.

(2) Figures in Table 4.12 adjusted on the basis of the premium income of the group of companies as a proportion of total

# Life Insurance Company Participation in Municipal Bond Issues

(100,000 omitted)

1955	1956	1957	1958	1959	1960	1961
Net New Issues						
& Guaranteed(1)	\$108	\$232	\$222	\$217	\$240	\$181
Net Purchases						
by Life						
Companies(2)	\$ 28	\$ 14	\$ 21	\$ 29	\$ 36	\$ 17
& Participation	26	10	13	26	2	2
	26	10	13	26	2	2

Sources: (1) New Issue Data - Bank of Canada Statistical Summary.

(2) Figures in Table 4.13 adjusted on the basis of the premium income of the group of companies as a proportion of total premium income of all federally-regulated

- 4.51 Corporation bonds form the second most important group of life insurance assets. Purchases of this type of security provide Canadian industry with an important part of their new capital requirements. Participation of the insurance companies in the corporate bond market in the period 1952-61 is shown in Table 4.p.

Table 4.p

Life Insurance Company Participation in Corporate Bond Issues

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Net New Issues Can. Corporate & "Other" Bonds (1)	\$257	\$275	\$393	\$388	\$592	\$576	\$473	\$111	\$311	\$205
Net Purchases by Life Cos. (2)	\$110	\$152	\$118	\$ 44	\$162	\$ 94	\$ 81	\$ 32	\$ 53	\$ 77
% Participation	43	55	30	11	27	16	17	29	17	38

Sources: (1) New Issue Data - Bank of Canada Statistical Summary.

- (2) Figures in Table 4.k adjusted on the basis of the premium income of the group of companies as a proportion of total premium income of all federally-registered companies.

"Other" bonds form a small part of the totals and include such issues as the International Bank and foreign governments which are sold on the Canadian market intermittently.

- 4.52 The economy also benefits from insurance company investments in non-residential mortgages. This represents financing of a wide variety of enterprises including shopping centers, supermarkets, office buildings, hotels and small industrial plants, warehouses and stores. Much of this financing would come within the area of so-called small business. A measure of the importance of this type of investment is given below.

Table 4.q

Life Insurance Company Participation in Non-Residential Mortgages

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Institutional Approvals of Non-Residential Mtges. (1)	\$ 82	\$ 89	\$115	\$138	\$141	\$104	\$175	\$216	\$263	\$298
Approvals by Life Cos. (2)	\$ 52	\$ 60	\$ 76	\$ 92	\$ 94	\$ 70	\$ 99	\$130	\$131	\$141
% Participation	65	67	67	67	67	67	57	60	50	47

Sources: (1) Total approvals by all lending institutions on Other Property. Canadian Housing Statistics, C.M.H.C.

- (2) C.M.H.C.



Corporation bonus form the second most important group of life insurance companies. The insurance industry with an important part of their new capital requirements. Participation of the insurance companies in the corporate bond market in the period 1952-61 is shown in Table A.9.

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Net New Issues Gen. Corporate & "Other" Bonds (1)	\$257	\$275	\$393	\$388	\$292	\$276	\$473	\$211	\$311	\$202
Life Cos. (2)	\$110	\$132	\$118	\$114	\$162	\$104	\$104	\$104	\$104	\$104
Participation	43	52	30	11	27	16	17	29	17	28

Sources: (1) New Issues Data - Bank of Canada Statistical Summary.

(2) Figures in Table A.8 adjusted on the basis of the premium income of the group of companies as a proportion of total premium income of all federally-registered companies.

"Other" bonds form a small part of the total and include such issues as the International Bank and Foreign Governments which are sold on the Canadian market infrequently.

4.52 The economy also benefits from insurance company investments in non-residential mortgages. This represents financing of a wide variety of enterprises including shopping centers, supermarkets, office buildings, hotels and small industrial plants, warehouses and stores. Much of this financing would come within the area of so-called small business. A measure of the importance of this type of investment is given below.

Table A.9

(000,000 omitted)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Approvals by Life Cos. (2)	\$25	\$60	\$76	\$92	\$94	\$70	\$99	\$180	\$171	\$181
Participation	65	67	67	67	67	67	67	67	67	67
Approvals by Non-Residential Mortg. (1)	\$62	\$69	\$112	\$138	\$141	\$102	\$172	\$216	\$263	\$293
Institutional Approvals of Non-Residential Mortg. (1)	\$62	\$69	\$112	\$138	\$141	\$102	\$172	\$216	\$263	\$293

Total approvals by all leading institutions on other property. Canadian Housing Statistics, C.M.H.C.

- 4.53 Policy loans provide the policyholder with a source of ready credit with which to meet an emergency or to take advantage of sudden opportunity. Table 4.r attempts to gauge the relative importance of this type of loan by comparing annual changes in consumer credit outstanding with annual changes in policy loans outstanding.

Table 4.r

Life Insurance Company Policy Loans in Relation to Consumer Credit

(000,000 omitted)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Changes in Consumer Credit Outstanding(1)	\$470	\$369	\$139	\$471	\$338	\$ 56	\$306	\$434	\$320	\$289
Increase in Policy Loans(2)	\$ 14	\$ 12	\$ 15	\$ 11	\$ 22	\$ 26	\$ 12	\$ 19	\$ 23	\$ 15
%	3	3	11	2	6	46	4	4	7	5

Sources: (1) Bank of Canada Statistical Summary.

(2) Table 4.b - fourth column from right.

- 4.54 It will be observed that the demand for policy loans reached a peak during the period covered in Table 4.r in the year 1957 when consumer credit was in short supply. Most "permanent" life insurance contracts provide policy loan privileges and specify the rate of interest to be charged. In no case does the rate exceed 6%.

## SEGREGATED FUNDS

- 4.55 The power of federally-registered companies to issue variable accumulation and annuity contracts was clarified in 1961. The Insurance Acts were amended to require that the funds relating to such contracts be segregated from the funds relating to the regular life insurance and annuity business of the companies. Several provincial companies have the power in their charters to issue variable contracts and one is already doing so.
- 4.56 The Association asked the twenty life insurance companies with the largest asset holdings in Canada to report upon their plans and progress in developing this new line of business. The group included three United States, two British and fifteen Canadian companies, which together hold 88% of life insurance assets in Canada. As at the end of March, 1962, eight of these companies had established

Policy loans provide the policyholder with a source of ready credit with which to meet an emergency or to take advantage of sudden opportunity. Table B.7 attempts to show the relative importance of this type of loan by comparing annual changes in consumer credit outstanding with annual changes in policy loans outstanding.

Table B.7

(000,000 omitted)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
Change in Consumer Credit	\$470	\$369	\$473	\$471	\$338	\$ 56	\$306	\$434	\$390
Outstanding (1)	\$470	\$369	\$473	\$471	\$338	\$ 56	\$306	\$434	\$390
Change in Policy Loans (2)	\$ 14	\$ 12	\$ 12	\$ 11	\$ 22	\$ 25	\$ 12	\$ 12	\$ 23
Outstanding (2)	3	3	11	2	4	4	4	4	7

Sources: (1) Bank of Canada Statistical Summary.  
(2) Table B.6 - fourth column from right.

During the period covered in Table B.7 in the year 1957 when consumer credit was in short supply. Most "permanent" life insurance contracts provide policy loan privileges and specify the rate of interest to be charged. In no case does the rate exceed 6%.

The power of federally-regulated companies to issue variable accumulation and annuity contracts was clarified in 1961. The Insurance Acts were amended to require that the funds relating to such contracts be segregated from the funds relating to the regular life insurance and annuity business of the companies. Several provincial companies have the power in their charters to issue variable contracts and one is already doing so.

The Association asked the twenty life insurance companies with the largest asset holdings in Canada to report upon their plans and progress in developing this new line of business. The group included three United States, two British and fifteen Canadian companies, which together hold 86% of life insurance assets in Canada. As at the end of March, 1962, eight of these companies had established





1 segregated funds and seven more expected to do so during  
2 the year.

3 4.57 With respect to the fifteen companies that  
4 are or will shortly be in this business, thirteen are,  
5 so far, confining their activity to group contracts  
6 while two are also making individual contracts available.

7 4.58 All these companies sell variable accumulation  
8 contracts. These provide that the contributions will be  
9 accumulated and that the rights to benefit will depend  
10 upon the value of the assets held by the fund at the  
11 time the right is exercised. At that time the benefit  
12 may be paid out as a fixed annuity. Alternatively, a  
13 variable annuity which would provide for the payments  
14 to vary as the value of the assets in the fund varies  
15 can be sold. One company is already issuing these  
16 variable annuities and a second expects to make them  
17 available in the near future.

18 4.59 Six of the companies have only equities  
19 in their segregated pooled fund or funds and a group  
20 policyholder is able to divide his pension plan  
21 contributions between the equity fund and the regular  
22 annuity lines of the company. Eight companies have both  
23 segregated equity and segregated "fixed-income" funds  
24 between which the group policyholder can allocate his  
25 contributions. Three of these companies have a separate  
26 bond fund and a separate mortgage fund, the others will  
27 combine all debt-type investments in one fund.

28 4.60 Of the fifteen companies, twelve are prepared  
29 to set up a separate investment account for a large  
30 group policyholder. Five of these companies would permit



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bond fund and a separate mortgage fund, the others will  
combine all debt-type investments in one fund.  
4.60 Of the fifteen companies, twelve are preparing  
to set up a separate investment account for a large  
group of policyholders. Five of these companies would have



1 the policyholder to participate in investment decisions  
2 while six would not.

3 4.61 For the purpose of funding group pension  
4 plans, five companies restrict contributions to the equity  
5 fund to the employers' share and nine have no such  
6 restriction and one has as yet made no decision on the  
7 matter. Most of the companies give the employer freedom  
8 not only to vary the proportion of his plan's contributions  
9 going into equity funds from time to time but also to  
10 transfer previously deposited contributions from such  
11 funds. With regard to marketing, six companies use their  
12 existing sales force and eight use not only their own  
13 organization but also general insurance brokers,  
14 actuarial or pension consultants and others.

15 4.62 At the end of March, 1962, thirty contracts  
16 using segregated funds had been issued. The annual rate  
17 of contribution to the segregated funds arising therefrom  
18 was estimated at \$2 $\frac{1}{4}$  million.  
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4.62 At the end of March, 1962, thirty contracts

using segregated funds had been issued. The annual rate

of contribution to the segregated funds arising therefrom

was estimated at \$2½ million.



SECTION 5

INVESTMENT THEORY AND PRACTICE

5.1 The theory of life insurance investment is based on the nature of the liabilities assumed - the commitments to pay claims and benefits as they become due and the interest guarantee given on moneys already received and moneys to be received in the future.

5.2 Life insurance companies must maintain reserves which represent the amount which together with premiums and interest to be received in the future will enable them to meet these future obligations. The great majority of life insurance and annuity contracts will run for many years before maturing and are often further extended by payment of regular amounts to beneficiaries each year. In the process a large pool of personal savings becomes available for investment in the Canadian economy.

5.3 There are nearly 9 million policyholders in Canada. It would be calamitous if a company were unable to meet its obligations under contracts on which the policyholders had paid premiums for years and upon which they have placed dependence not only for themselves but also for their families. Therefore, above all, life insurance protection must be absolutely reliable. This has been recognized in insurance legislation and in the degree of continuing supervision in Canada. It is also recognized by the companies themselves in the conduct of their own affairs.

5.4 Security of principal, then, must be a prime consideration in the investment of life insurance funds.



SECTION 5

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- 5.4 Security of principal, then, must be a prime consideration in the investment of life insurance funds.





Liabilities are expressed for the most part in fixed-dollar amounts and in relation to these liabilities, surplus funds, although adequate, are not large. The insurance industry must, therefore, invest its funds so that the risk of loss is minimized. This is done by investing the great preponderance of assets in fixed-dollar form, that is, in debt investments. Security of principal is obtained by careful selection of individual investments as to their credit-worthiness that is, as to their ability to pay interest and repay principal when due. It is further assured by diversification. That is, in part, obtained by distributing assets over various categories of investments (bonds, mortgages, real estate, stocks) and also by obtaining wide geographical distribution. Within each category of investment further diversification is obtained by limiting the size of individual investments. For those companies operating outside of Canada the risk of exchange loss is minimized by trying to match liabilities with assets expressed in the same currency.

5.5 The next important consideration is the investment of funds so that they will yield the largest return consistent with the required <sup>sa</sup>safety. The competitive nature of the life insurance industry compels this. Not only must the companies earn a net rate of interest at least equal to the rate assumed for premium and reserve computations but also they must try to earn the highest possible margin over and above that rate so that the cost of insurance to policy-holders may be as low as possible. Companies, therefore, are



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1 extremely sensitive to yields obtainable in the capital  
2 market and will accordingly vary the direction of their  
3 investment programs in order to obtain the highest  
4 possible net return on their assets.

5 5.6 Experience has shown that with the growth  
6 of the industry cash demands by policyholders which may  
7 arise either through the withdrawal of funds left on  
8 deposit or the exercise of the contractual rights for  
9 policy loans and cash surrender values can be met normally  
10 by the industry's net cash inflow. A sudden increase  
11 in demands by policyholders for cash is more likely to  
12 have its impact on investment policy by limiting the  
13 amount available for new investment than by forcing  
14 the sale of assets. This allows the companies to maintain  
15 fully invested positions and places little emphasis on  
16 any very high degree of liquidity for this reason.

17 5.7 The life insurance companies in Canada, of  
18 course, must invest their assets within the framework  
19 of restrictions and limitations imposed by the various  
20 Insurance Acts. While so far most of these restrictions  
21 have for their purpose the avoidance of undue risk or  
22 the limitation of economic power, they nevertheless  
23 have an important effect on the pattern of investment.  
24 For example, the Canadian market value test for non-  
25 government securities when coupled with rigidities in  
26 the valuing of liabilities tends to limit investment  
27 in securities subject to wide market fluctuations,  
28 such as common shares or perpetual bonds.

29 5.8 While life insurance companies have a  
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5.8 While life insurance companies have a

preference for long-term investments because of the long



1 term nature of their liabilities, it does not follow that  
2 their assets should be always invested in securities with  
3 very long maturities. Investing in long-term issues may  
4 provide a hedge against a fall in interest rates but it  
5 provides no assurance that the rate of return on the  
6 assets so invested will be maximized. The main debt  
7 media available with long-term maturities and possessing  
8 good protection against pre-payment are government bonds  
9 where the return is normally relatively low. The  
10 larger income usually available from other investment  
11 sources in itself can provide some hedge against a fall  
12 in interest rates. As compared with an investment in  
13 a long-term maturity, an investment in a shorter maturity  
14 will have been justified if the higher income obtained over  
15 the life of the shorter-term investment when taken in  
16 conjunction with the income on the reinvestment of the  
17 money is greater than that which would have been obtained  
18 by the immediate investment in a long-term maturity.  
19 Furthermore, an investment in very long-term corporate  
20 obligations, when available, may conflict with the  
21 objective of security of principal since in a period of  
22 rapid economic, political and technological change the  
23 credit-worthiness of an asset can alter substantially.  
24 In investing its funds, therefore, an insurance company  
25 will try to obtain the highest eventual return on its  
26 assets by tending to favour shorter-term investments  
27 when it believes interest rates are low and tending  
28 to favour longer-term investments when it believes  
29 interest rates are high, but few if any companies would  
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or perpetual securities.

5.9 An active investment policy is normally followed by the life insurance industry. This involves not only the shifting of investment funds into the media offering the relatively highest return but also the trading or exchanging of securities within and between classes. In order to facilitate an active investment policy, a good degree of marketability on a substantial portion of assets is important. Trading activity is not limited to actions taken in the light of changes or expected changes in political and economic conditions but also involves the buying and selling of securities to take advantage of market differentials which appear to be out of line. In following an active investment policy the life insurance companies try to improve the return on their investment portfolios and by their activities broaden the capital market by promoting a freer flow of funds between many of its sectors.

#### INVESTMENT PRACTICE

5.10 The following comments arise from a study of a representative cross-section of the industry in Canada. It should be noted, however, that despite the general conclusions indicated by this study there are important variations among the individual companies relating to investment practices.

##### Net Increase in Assets

5.11 The net increase in assets of life insurance companies is characterized by predictability, regularity and stability. The substantial growth in new business



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1 from year to year as experienced in the past decade  
2 has not been immediately reflected in corresponding  
3 asset growth due to the concentration of acquisition  
4 and related expense in the early years of a new policy.  
5 Mechanization has tended to modify the effect of rising  
6 costs but in itself has brought capital expenditures  
7 for equipment. Surrenders generally reflect economic  
8 conditions. On the other hand, the increase in the rate  
9 of interest earnings in the past fifteen years has had  
10 a helpful effect on the growth of assets.

11 5.12 The underlying stability and predictability  
12 of growth is an important reason why life insurance  
13 companies can approach their investment problem with a  
14 long-term view and can afford to make important forward  
15 commitments. The steady flow of new investible funds  
16 to the companies creates a pressure for full investment  
17 and precludes their withdrawal from investment markets  
18 for any extended period.

#### 19 Reinvestment of Maturing Assets

20 5.13 The regular monthly repayment of principal  
21 on the large mortgage holdings of the companies produces  
22 in aggregate a substantial cash flow which in recent  
23 years has become increasingly important.

24 5.14 The amortization of real estate held for the  
25 production of income, the serial or annuity bonds of  
26 municipalities and the sinking fund repayments of  
27 corporation bonds, particularly those directly placed,  
28 also produce regular flows of repayments for reinvestment.

29 5.15 Other marketable bonds are generally not held  
30 by the life companies until maturity. When their term





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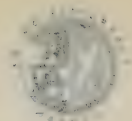


1 has been reduced to within three to five years they  
2 enter an area of the market where short-term investors  
3 are active and it is usually possible to **sell** the securities  
4 and reinvest in longer-term securities at an increase  
5 in yield.

6 5.16 These bonds form part of the regular flow of  
7 investible funds for new commitments. Of somewhat the  
8 same nature but lacking the same predictability is the  
9 redemption of assets. The greatest volume of redemptions  
10 occurs when high-coupon issues are refunded during  
11 periods of low interest rates. Redemption of corporate  
12 bonds prior to maturity usually is the result of the  
13 special circumstances of the borrower such as merger,  
14 sale, increased financing beyond the provisions of the  
15 existing trust deed, recapitalization or advance  
16 repayment by cash. During recent years investors have  
17 been able to protect themselves to some degree by obtain-  
18 ing "non-refunding" clauses in new issues, **which** are  
19 effective for a portion of the life of the bond.

20 5.17 Mortgage loans made to individuals, such as  
21 most single-family residential mortgages, are also subject  
22 to early redemption - since under provisions of the  
23 Interest Act this right is available to the borrower at  
24 the end of five years. Redemptions also frequently  
25 occur when home ownership changes hands.

26 5.18 Redemptions are thus quite unpredictable  
27 but characteristic of **periods** of falling interest rates.  
28 They can be quite substantial and have in the past  
29 produced large increases in investible funds at a time  
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1 rates low.

2 Trading \*

3 5.19 Estimates based on an analysis of the  
4 operations of companies holding 76 per cent of assets  
5 in Canada indicate that trading, as measured by the sale  
6 of investments to make an alternative investment, approaches  
7 one and one-half times the volume of new funds invested.

8 5.20 It is clear that this experience varies  
9 widely between companies, due to factors of policy,  
10 practice and personnel. The ratio referred to has been  
11 about 2 - 1 in the case of one of the most active trading  
12 companies and in the case of other companies it assumes  
13 relatively small proportions. On the whole, indications  
14 are that some of the larger companies, with larger  
15 investment staffs, are relatively the more active traders.  
16 However, some larger companies that have relied more  
17 extensively on mortgage investments and placed less  
18 emphasis on security portfolios are not so active.

19 5.21 It is apparent from the operations of one  
20 company, which deals in Canadian, American and British  
21 securities, that a broad diversified market unhampered  
22 by special deterrents to trading, fosters the trading  
23 operation. Measuring the company's average annual  
24 securities activity (purchases and sales) relative  
25 to its securities portfolio in each market over the  
26 three-year period 1958-1960, it was found that that  
27 activity in the United States was double that in Canada  
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8 the additional profits available in a market conducive  
9 to trading are at least partial offset to yield  
10 differentials in considering the disposition of funds.

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12 \*The term "trading" is used here and elsewhere in this  
13 submission in a colloquial sense and refers to the active  
14 buying and selling or exchanging of securities. Of  
15 course, such transactions are conducted for the companies  
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#### 17 Regional Diversification

18 5.22 The principle of diversification which has  
19 been evidenced so far in this submission involves the  
20 distribution of investment by category of asset. Implicit  
21 in this principle is also diversification by geographical  
22 area. Basically, this is designed to obtain a spread  
23 of risk. At the same time, however, life insurance  
24 investment dollars are widely diffused throughout the  
25 economy. In this diffusion they supplement local funds  
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27 5.23 Despite the fact that the life insurance  
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1 to the comment so often heard that the life insurance  
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4 5.24 The Commission will appreciate the difficulties  
5 involved in making this kind of a comparison. As far as  
6 the assets are concerned, provincial and municipal bonds  
7 and mortgage and real estate investment can all be directly  
8 allocated. Corporation bond and share holdings require  
9 detailed analysis and allocation on the basis of location  
10 of properties, track or pipeline mileage, bank clearings  
11 or some other appropriate basis for those corporations  
12 that operate in more than one province. Federal govern-  
13 ment obligations require distribution on the basis of  
14 population. The allocation of reserves and other  
15 liabilities to policyholders require a different set of  
16 assumptions. In the case of reserves, these assumptions  
17 differ for insurance and annuities and for individual  
18 and group forms of insurance and annuities.

19 5.25 Notwithstanding this, we believe that the  
20 following analysis is sufficiently accurate to be quite  
21 significant.

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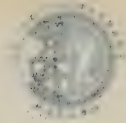
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Table 5.a

A.93

Estimated Regional Distribution of Life Insurance Assets  
and Liabilities in Canada - End of 1960

(000,000 omitted)

	A	B	
	<u>Invested Assets held in Canada*</u>	<u>Liabilities to Policyholders in Canada</u>	<u>A B</u>
British Columbia	\$ 872	\$ 565	154%
Alberta	672	425	158
Saskatchewan	243	180	135
Manitoba	362	327	111
Ontario	3,429	3,146	109
Quebec	1,910	1,901	100
New Brunswick	118	135	87
Nova Scotia	169	200	85
Prince Edward Island	19	18	106
Newfoundland	67	55	122
	<u>\$7,861</u>	<u>\$6,952</u>	
Non-invested assets	\$ 208		
Foreign securities "held in Canada"	191		
Other liabilities		\$ 415	
Excess of assets over liabilities		893	
	<u>\$8,260</u>	<u>\$8,260</u>	

Source: C.L.I.O.A.

\*Not included are the securities of Canadian borrowers issued in Canadian dollars or other currencies and held for non-Canadian policyholders.

- 5.26 It should be borne in mind that these assets and liabilities will change from year to year, although not significantly, as the assets respond to investment opportunity and availability of credit-worthy investments and as the liabilities change in response to both new business and the aging of existing business.

The Average Maturity of Assets

- 5.27 There is considerable reference literature on the subject of matching insurance investments to relevant liabilities. This theory attracted attention first in the United Kingdom where conditions lend greater support to its practical application - for example, a larger pool of longer-dated or perpetual fixed-interest securities, relatively rigid call provisions on these securities and non-fixed cash or loan values on policies. However, even under these

(better 000,000)

Not included are the activities of Canadian bondsmen insured in Canadian dollars or other currencies and held for non-Canadian



1 conditions, evidence before the Radcliffe Commission  
2 indicated only a "broad bias" in the direction of matching  
3 liabilities with security investment "provided it meets  
4 requirements on market and investment considerations."

5 5.28 The Association believes that in Canada this  
6 is little more than a background consideration in invest-  
7 ment policy and, among a selected group of representative  
8 companies approached on the subject, there were none  
9 that attempted to set up maturity schedules of assets  
10 and liabilities as a guide to investment policy.

11 5.29 A few companies undertake the preparation  
12 of a periodic schedule of the maturity breakdown of their  
13 bond and debenture portfolios. A study of a selection  
14 of these schedules indicates that, during the last  
15 few year, most companies have had the largest quinquennial  
16 group of maturities in the 15 to 20-year bracket and  
17 the smallest group in the 5-year and less bracket. At  
18 the end of 1960, the percentage of bond and debenture  
19 maturities falling in the former group ranged between  
20 25.2 per cent and 30.6 per cent for the companies providing  
21 the breakdown. The range for the 5-year and less group  
22 was 7.7 per cent to 14.2 per cent.

23 5.30 Average term of the bond and debenture  
24 portfolios of those particular companies ranged between  
25 12 years 11 months and 15 years 2 months at the end of  
26 1960. Insofar as a trend could be determined from the  
27 limited data available, it appears that the average  
28 term of bond and debenture portfolios has lengthened  
29 since the mid-1950's.

30 5.31 No exact calculation of the average term





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1 of mortgage portfolios has been available, nor is it likely  
2 to be a practical calculation. However, where some  
3 estimates have been available, they vary widely from  
4 roughly  $5\frac{1}{2}$  years in one case to over 10 years in another  
5 one. Those companies having a larger proportion of loans  
6 in apartment, commercial and industrial property categories,  
7 where the term of loan and amortization tends to be longer  
8 than for housing loans, are likely to have the longer  
9 average term on their portfolios. Insofar as a trend  
10 was indicated by available figures, it pointed to a  
11 lengthening of the average term on mortgage portfolios  
12 over the past few years.

13 5.32 The view has been expressed, on occasions,  
14 that the industry has exposed its policyholders to  
15 unnecessary risks by failing to invest for a term more  
16 consonant with its liabilities. It must be remembered,  
17 however, that the liabilities are extremely long-term and  
18 that, even assuming an exact calculation of the maturity  
19 of assets and liabilities was possible, it would be  
20 extremely unlikely if an insurance company could approach  
21 a reasonable balance. In the first place, the volume  
22 of really long-term investments is limited and in the  
23 second place, the terms of investment are at best a  
24 compromise between borrower and lender and where the  
25 lender desires a long or a short maturity, the borrower  
26 will by the nature of things have a strong leaning  
27 towards the converse. There will, consequently, be a  
28 pull away from the exact term sought by the lender to  
29 meet any maturity schedule.

30 5.33 At the same time it is hard to dispute,



1947

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5.35 The view has been expressed, on occasions,  
that the industry has exposed its policyholders to  
unnecessary risks by failing to invest for a term more  
consonant with its liabilities. It must be remembered,  
however, that the liabilities are extremely long-term and  
that, even assuming an exact calculation of the maturity  
of assets and liabilities was possible, it would be  
extremely unlikely if an insurance company could approach  
a reasonable balance. In the first place, the volume  
of really long-term investments is limited and in the  
second place, the terms of investment are at best a  
compromise between borrower and lender and where the  
lender desires a long or a short maturity, the borrower  
will by the nature of things have a strong leaning  
towards the converse. There will, consequently, be a  
pull away from the exact term sought by the lender to  
some degree of maturity schedule.

At the same time it is hard to dispute.





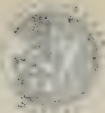
1 giving consideration to the overall trend of bond  
2 yields, that the relative shortness of average term in  
3 portfolios in recent years has been to the benefit of  
4 policyholders. The greater freedom given to investment  
5 polich through lack of adherence to a "matching" policy  
6 is likely to continue to be to their advantage.

7 The Effect of Monetary Policy

8 5.34 The effect of monetary policy on the life  
9 insurance companies flows essentially from changing  
10 interest rate levels and relationships and although  
11 not direct is nevertheless pervasive.

12 5.35 The life insurance companies invest through  
13 many channels --- federal government bonds, provincial  
14 bonds, municipal bonds, corporate bonds, preferred and  
15 common stocks, N.H.A. and conventional mortgages, income-  
16 producing real estate and so on -- and thus have many  
17 points of exposure to changing interest rates. Although  
18 the investments are essentially in the long-term category,  
19 short-term bonds and commercial paper are acquired from  
20 time to time. This spectrum of investment is much wider  
21 than that normally employed by most other financial  
22 intermediaries such as trustee pension plans, mutual  
23 funds and credit unions.

24 5.36 The fact that life company investments are  
25 preponderantly long-term makes them particularly susceptible  
26 to the effects of monetary policy to the extent that these  
27 effects are felt in the yields in the long-term market.  
28 Lower bond prices or higher interest rates tend to  
29 restrict the exchange of existing holdings for others  
30 of higher yields because of the magnitude of the losses



giving consideration to the overall trend of bond yields, that the relative shortness of average term in portfolios in recent years has been to the benefit of policyholders. The greater freedom given to investment policy through lack of adherence to a "matching" policy is likely to continue to be to their advantage.

The Effect of Monetary Policy

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5.36 The fact that life company investments are preponderantly long-term makes them particularly susceptible to the effects of monetary policy to the extent that effects are felt in the yields in the long-term market. Lower bond prices or higher interest rates tend to restrict the exchange of existing holdings for others of higher yields because of the magnitude of the losses



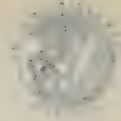
1 immediately involved. Falling interest rates and rising  
2 bond prices tend to promote the exchange of securities  
3 for the purpose of either improving relative yield or,  
4 at later stages, reducing term.

5 5.37 As mentioned previously, each company's  
6 net earned interest rate is important in lowering the  
7 cost of insurance to its policyholders and the relative  
8 level is important as each life insurance company competes  
9 with the others and all compete with the other savings  
10 intermediaries. Thus, each company is sensitive to  
11 changing yields in the market-place as it attempts to  
12 make the most of the opportunities for profitable  
13 investment that present themselves.

14 5.38 Life insurance companies are responsive to  
15 change or expectation of change in interest rate levels  
16 in at least four ways: (a) the direction of the invest-  
17 ment flow; (b) the liquidity of existing assets;  
18 (c) the generation of cash for investment; and (d) the  
19 degree of forward commitments. It should be noted,  
20 though, that these effects are produced whether or not  
21 the change in interest rate levels is induced by the  
22 monetary authority or whether the change is the result  
23 of the interplay of the normal forces of supply and  
24 demand.

25 5.39 For example, when an expectation of monetary  
26 ease exists or is created, investment emphasis shifts  
27 to those areas where yields are flexible and likely  
28 to decline. Longer-term assets are preferred, forward  
29 commitments are increased. As rates decline, emphasis  
30 tends to shift to those areas of investment where interest





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1 rates have not decreased to the same extent. During this  
2 phase as mortgage repayments increase, as existing bond  
3 investments are refunded, as more monies are left on  
4 deposit and the increased market value of investment  
5 holdings facilitate disposal of assets at smaller losses  
6 or at profits.

7 5.40 When monetary restraint is expected, the  
8 reverse is true. Life insurance companies are less willing  
9 to assume a fully-committed position with respect to  
10 their cash flow. Emphasis tends to be placed on either  
11 short or medium-term securities. Prepayments of existing  
12 investments tend to decline. Because of the lower market  
13 values, sale of existing assets becomes more difficult  
14 except at larger losses. Less funds tend to be left  
15 on deposit and policy loans tend to rise.

16 5.41 It should be noted that the same effects  
17 flow from the federal government operations in the  
18 area of debt management to the extent that those operations  
19 produce variations or expected variations in the level  
20 of interest rates or relationships within the interest  
21 rate structure.

#### 22 The Influence of Exchange Rates

23 5.42 Most life insurance companies are desirous  
24 of assuming the minimum of exchange rate risk in their  
25 investment operations. In general, the attempt is made  
26 to match foreign currency assets to foreign currency  
27 liabilities. Indeed, some foreign jurisdictions require  
28 full or substantial investment of matching assets in  
29 their own currency. (Non-resident companies doing  
30 business here are encouraged by the authorities to cover



to the same extent. During this period, as existing bond investments are reinvested, as more monies are left on deposit and the increased market value of investment holdings facilitate disposal of assets at smaller losses or at profits.

When monetary restraint is expected, the reverse is true. Life insurance companies are less willing to assume a fully-committed position with respect to their cash flow. Emphasis tends to be placed on either short or medium-term securities. Repayments of existing investments tend to decline. Because of the lower market values, sale of existing assets becomes more difficult except at larger losses. Less funds tend to be left on deposit and policy loans tend to rise.

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The Influence of Exchange Rates

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1 their Canadian liabilities with Canadian assets).

2 5.43 It is among Canada, the United States and the  
3 United Kingdom that acceptance of foreign exchange risks  
4 has been noticeable in the past.

5 5.44 Canadian life companies have from time to  
6 time been prepared to accept some exchange risk and to  
7 purchase non-resident investments when the differential  
8 in interest rates appeared unduly narrow. Some reversal  
9 of that position occurs when the yield spread widens  
10 appreciably.

11 Asset Holdings by Size of Company

12 5.45 The assets held in Canada by the individual  
13 Canadian companies have been analysed on a quinquennial  
14 basis back in 1935. Table 5.b shows the results of  
15 grouping the largest ten portfolios, the next largest  
16 ten and the remaining portfolios for each of the six  
17 year-ends.

18 5.46 In the post-war period mortgage loans would  
19 appear to represent a smaller proportion of the portfolios  
20 of the group of smallest companies than of the groups  
21 of larger companies. This presumably stems from the fact  
22 that there are "economies of scale" in a mortgage  
23 operation - the larger the flow of loanable funds the  
24 easier it is to build and maintain an efficient mortgage  
25 organization. However, the post-war pattern did not obtain  
26 in the late 1930's and early 1940's when the mortgage  
27 operations of most companies were contracting.

28 5.47 In the 1950's the real estate holdings of  
29 the group of smallest companies were low relative to  
30 larger companies. The acquisition of income-producing



5.43 It is among Canada, the United States and the

United Kingdom that acceptance of foreign exchange risks has been noticeable in the past.

5.44 Canadian life companies have from time to time been prepared to accept some exchange risk and to purchase non-resident investments when the differential in interest rates appeared unduly narrow. Some reversal of this attitude is apparent.

Asset Holdings by Size of Company

5.45 The assets held in Canada by the individual Canadian companies have been analysed on a quinquennial basis back in 1935. Table 5.4 shows the results of grouping the largest ten portfolios, the next largest ten and the remaining portfolios for each of the six year-ends.

5.46 In the post-war period mortgage loans would appear to represent a smaller proportion of the portfolio of the group of smallest companies than of the groups of larger companies. This presumably stems from the fact that there are "economies of scale" in a mortgage operation - the larger the flow of loanable funds the easier it is to build and maintain an efficient mortgage organization. However, the post-war pattern did not obtain in the late 1930's and early 1940's when the mortgage operations of most companies were contracting.

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Table 5.b

## Life Insurance Assets Held in Canada by Canadian Federally-Registered Companies

## Percentages in Various Categories

(Book Values)

End of	Company Grouping	Bonds	Stocks	Mortgage Loans*	Real Estate	Policy Loans	Cash	Other Assets	Total
1935	Largest ten	39.96	12.59	23.76	5.50	13.28	1.30	3.61	100.00
	Next ten	41.34	3.81	28.11	5.00	16.01	1.08	4.65	100.00
	Remaining 7	35.48	6.07	27.16	6.57	15.23	1.95	7.54	100.00
	All Companies	40.03	11.81	24.15	5.47	13.52	1.29	3.73	100.00
1940	Largest ten	52.20	11.35	19.50	4.36	9.22	.73	2.64	100.00
	Next ten	47.32	7.16	25.41	4.23	11.04	1.60	3.24	100.00
	Remaining 8	45.55	9.71	18.29	8.76	11.18	2.21	4.30	100.00
	All Companies	51.67	10.94	20.02	4.41	9.42	.83	2.71	100.00
1945	Largest ten	73.78	4.21	12.49	1.73	5.26	.34	2.19	100.00
	Next ten	63.40	8.40	18.27	1.03	5.56	.81	2.53	100.00
	Remaining 8	68.59	9.35	9.11	2.83	5.24	1.88	3.00	100.00
	All Companies	72.60	4.74	13.05	1.67	5.29	.41	2.24	100.00
1950	Largest ten	62.32	3.13	24.80	2.04	4.48	.76	2.47	100.00
	Next ten	54.23	7.59	28.70	1.04	4.94	.94	2.56	100.00
	Remaining 10	54.30	9.30	24.73	1.38	5.38	1.56	3.35	100.00
	All Companies	61.21	3.78	25.24	1.91	4.56	.80	2.50	100.00

\* Includes agreements of sale.

A.100





Table 5.b. (continued)  
Life Insurance Assets Held in Canada by Canadian Federally-Registered Companies

Percentages in Various Categories (Book Values)									
End of	Company Grouping	Bonds	Stocks	Mortgage Loans*	Real Estate	Policy Loans	Cash	Other Assets	Total
1955	Largest ten	46.08	3.83	39.53	3.96	4.46	.44	1.70	100.00
	Next ten	48.35	4.06	37.39	2.29	5.50	.74	1.67	100.00
	Remaining 12	56.46	6.85	25.16	2.26	5.66	1.77	1.84	100.00
	All Companies	46.61	3.94	38.91	3.73	4.61	.51	1.69	100.00
1960	Largest ten	38.80	3.05	45.37	4.95	4.38	.49	2.96	100.00
	Next ten	45.86	2.77	40.38	3.05	5.56	.60	1.78	100.00
	Remaining 16	59.06	7.08	24.14	1.45	4.81	1.28	2.18	100.00
	All Companies	40.22	3.14	44.17	4.62	4.53	.52	2.80	100.00

\* Includes agreements of sale.

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1 real estate usually involves a sizeable investment and  
2 often a smaller company is prevented from participating  
3 because of the limitations in the law and the need for  
4 diversification of its assets.

5 5.48 In the post-war period the stock holdings  
6 of the smallest companies as a group are high relative  
7 to the other two groups. This result is brought about  
8 by the holdings of two or three particular companies  
9 that, because of their relative size, weigh heavily in  
10 the percentages for the group of smallest companies.

11 5.49 Within each grouping the relative proportions  
12 of bond holdings varies inversely with mortgage holdings.  
13 There appears to be no particular pattern in the case  
14 of policy loans while cash balances naturally form a  
15 larger part of the assets of smaller companies than of  
16 larger companies.

17 5.50 It is appropriate to emphasize at this point  
18 that the statistical aggregates and averages which of  
19 necessity are used throughout this submission tend to  
20 veil the fact that each of the life insurance companies  
21 is pursuing its own investment policy quite independently  
22 of the others. The companies compete in the capital  
23 market just as they compete in the insurance market.

24 5.51 Table 5.c presents some figures on the  
25 categories of assets held in Canada at the end of 1960  
26 by individual Canadian companies. The extent of the variation  
27 between individual companies in their judgment as to  
28 portfolio management indicates that there are no  
29 built-in industry limitations other than those that  
30 each company imposes on itself as it pursues its investment



because of the limitations in the law and the need for diversification of the assets.

5.48 In the post-war period the stock holdings

of the smallest companies as a group are high relative to the other two groups. This result is brought about

by the fact that, because of their relative size, weigh heavily in

the percentages for the group of smallest companies. Within each grouping the relative proportions

of bond holdings varies inversely with mortgage holdings.

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by individual Canadian companies. The extent of the variation between individual companies in their judgment as to

portfolio management indicates that there are no

each company imposes on itself as it pursues the investment



objectives to the best of its ability.

5.52 One company had 26 per cent of its portfolio in bonds while a second company had 57 per cent of its assets in this category. The percentages for the other companies range between these two figures. For mortgage loans there was a range of nil to 64 per cent. For real estate there was a variation between nil and 10 per cent; it might be observed in this connection that the 5 per cent limitation in the law at the end of 1960 (later increased to 10 per cent) related to income-producing real estate alone and applied on the total portfolio of the companies, not the in-Canada portfolio only. For stocks the range or percentages was from nil to 12 per cent; this is based on book values which in many cases are about half of current market values.





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Table 5.c

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Life Insurance Assets Held in Canada by Selected Canadian Companies - End of 1960

Companies with Highest (H) or Lowest (L)  
 Percentages in Any Category of Asset within  
 the Groupings by Size (see Table 5.b)

(Federally-Registered Companies' Book Values)

<u>Company Grouping</u>	<u>Bonds</u>	<u>Stocks</u>	<u>Mortgage Loans*</u>	<u>Real Estate</u>	<u>Policy Loans</u>	<u>Other Assets</u>	<u>Total</u>
<u>Largest ten</u>							
Company A.	46.8(H)	7.2(H)	33.0(L)	5.3	2.8(L)	4.9	100.0
B.	26.0(L)	.3	63.8(H)	2.1	5.6	2.2	100.0
C.	41.4	2.6	46.3	1.9(L)	5.8(H)	2.0	100.0
D.	38.8	.5	45.6	7.7	4.4	3.0	100.0
E.	33.6	.2(L)	46.9	10.4(H)	4.0	4.9	100.0
<u>Next ten</u>							
Company F.	68.7(H)	2.0	17.9(L)	3.6	5.7	2.1	100.0
G.	32.1	5.5(H)	51.6	4.3	4.1(L)	2.4	100.0
H.	50.0	2.4	35.4	.9	7.6(H)	3.7	100.0
I.	43.6	3.7	38.4	4.6(H)	5.9	3.8	100.0
J.	28.7(L)	.5(L)	64.3(H)	.1(L)	4.4	2.0	100.0
<u>Remaining 16</u>							
Company K.	58.9	12.5(H)	20.1	.6	5.5	2.4	100.0
L.	50.2	1.9	32.5	3.8(H)	.9	10.7	100.0
M.	43.3(L)	4.2	39.6	2.1	8.1	2.7	100.0
N.	58.6	4.2	25.8	** (L)	8.3(H)	3.1	100.0
O.	97.5(H)	** (L)	** (L)	** (L)	** (L)	2.5	100.0
P.	45.4	** (L)	52.1(H)	** (L)	** (L)	2.5	100.0

\* Includes agreements of sale.

\*\* Nil holding. These are very small or new companies.

the Groupings by Size (see Table 2.b)  
Percentages in any Category of Asset within  
Comparison with Highest (H) or Lowest (L)

\* Includes agreements of sale.  
\*\* All holdings. These are very small or new companies.





The Influence of Relative Investment Earnings Rates

5.53 Rates of investment income earned, as reported by the individual companies in the annual statements required by the Department of Insurance are based on total invested assets. Since a number of the larger Canadian companies operate extensively outside of Canada, any average yields based on such figures would not be representative of Canadian experience.

5.54 The rates of investment income earned on Canadian assets alone have been obtained from a few representative companies. It has not been possible to weight the average yields according to the size of the individual company portfolios. Also, the data are based on different numbers of companies in certain years. Yields in the stock category are influenced by company book value adjustments to a much larger degree than the other portfolio categories. In addition, stock purchases have been made for purposes of long-term growth rather than for immediate dividend return, and even if it were possible to correct for the book value adjustments, there would still be difficulties of interpretation.

5.55 With these qualifications, the figures as shown in Tables 5.d and 5.e indicate:

(a) There has been persistent improvement in gross investment return on Canadian assets in the period 1951-60; in varying degrees this applies to all categories of investment.

(b) The improvement in investment return has been more marked in the second half of the decade as a result of the increasing weight of the acquisitions of



The Influence of Selective Investment on Canadian Yields

5.23 Rates of investment income earned, as reported

6 the individual companies in the annual statements

7 required by the Department of Insurance are based on total

8 invested assets. Since a number of the larger Canadian

9 companies operate extensively outside of Canada, any

10 average yields based on such figures would not be

11 representative of Canadian experience.

12 5.24 The rates of investment income earned on

13 Canadian assets alone have been obtained from a few

14 representative companies. It has not been possible to

15 weight the average yields according to the size of the

16 individual company portfolios. Also, the data are

17 based on different numbers of companies in certain years.

18 Yields in the stock category are influenced by company

19 size and by the nature of the investments.

20 other portfolio categories. In addition, stock purchases

21 have been made for purposes of long-term growth rather

22 than for immediate dividend return, and even if it were

23 possible to correct for the book value adjustments, there

24 would still be difficulties of interpretation.

25 5.25 With these qualifications, the figures as

26 shown in Tables 5.4 and 5.5 indicate

27 (a) There has been consistent improvement

28 in gross investment return on Canadian assets in the

29 period 1951-60; in varying degrees this applies to all

30 categories of investment.

31 (b) The improvement in investment return has

32 been more marked in the second half of the decade as a

33 result of the increasing weight of the acquisitions of



1 higher-yielding assets.

2 (c) Since the early 1950's there has been  
3 a slight narrowing of the differential in gross invest-  
4 ment return as between bonds and mortgages; the  
5 differential for 1960 was 1.55 per cent as against 1.70  
6 per cent for 1951. However, this is more than offset  
7 by the improvement in the expense ratio relative to  
8 mortgage business. In 1950, mortgages cost about 9/10  
9 of 1 per cent more to administer than did securities,  
10 whereas by the end of the decade this difference has  
11 narrowed to about 1/3 of 1 per cent. Consequently, the  
12 effective spread has, in fact, increased. The improved  
13 mortgage expense ratio results largely from the growth  
14 in the mortgage portfolios.

15 (d) The policy loan yields reflect, a  
16 distinct lag in responding to interest rate trends.  
17 Most policy contracts provide for a loan interest rate  
18 not in excess of 6 per cent. Their expense ratios show  
19 policy loans to be relatively costly to administer  
20 because of their small size.

21 (e) There has been a significant decline  
22 in the overall investment expense rate during the  
23 decade; this is largely attributable to the fact  
24 that a very much larger mortgage and real estate portfolio  
25 is being administered without major additions to  
26 overhead.





higher-yielding assets.

(c) Since the early 1950's there has been a slight narrowing of the differential in gross invest-

ment return as between bonds and mortgages; the

differential for 1960 was 1.55 per cent as against 1.70

per cent for 1951. However, this is more than offset

by the improvement in the expense ratio relative to

mortgage business. In 1950, mortgage cost about 2/10

of the return on the investment, whereas by the end of the decade this difference has

narrowed to about 1/3 of 1 per cent. Consequently, the

effective spread has, in fact, increased. The improved

mortgage expense ratio results largely from the growth

in the mortgage portfolios.

(d) The policy loan yields reflect a

distinct lag in responding to interest rate trends.

Most policy contracts provide for a loan in excess rate

not in excess of 6 per cent. Their expense ratios show

policy loans to be relatively costly to administer

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in the overall investment expense rate during the

decade; this is largely attributable to the fact

that a very much larger mortgage and real estate portfolio

is being administered without major additions to

overhead.

Table 5.d A.107

Gross Rates Of  
Investment Income Earned By Some Canadian  
Life Insurance Companies On Their Canadian Assets  
(By Portfolio Categories)

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
(1) Bonds	3.40	3.53	3.70	3.82	3.85	4.01	4.10	4.33	4.59	4.74
(2) Stocks	5.81	5.78	5.74	5.65	5.95	6.14	6.08	5.80	5.74	5.87
(1) Mortgages	5.10	5.20	5.37	5.50	5.57	5.64	5.81	5.97	6.10	6.29
(3) Real estate	4.32	4.63	4.98	4.78	4.84	5.23	5.52	5.60	5.51	5.60
(4) Policy loans	4.98	4.92	5.38	5.27	5.34	5.36	5.87	5.92	5.89	5.94
(2) Total (Gross)	4.12	4.30	4.55	4.66	4.79	4.97	5.16	5.33	5.51	5.68

(1) Estimate based on results of 6 companies, 1951-53 and 7 companies, 1954-60

(2) Estimate based on results of 5 companies, 1951-53 and 6 companies, 1954-60

(3) Estimate based on results of 5 companies, 1951-53 and 6 companies, 1954-56 and 7 companies, 1957-60

(4) Estimate based on results of 3 companies, 1951-53 and 4 companies 1954-56

\* \* \* \* \*

Table 5.e

Approximate Investment Expenses in Canada By  
Main Portfolio Categories (1)  
(As % Of Invested Assets)

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
Securities	.08	.08	.09	.08	.08	.09	.09	.10	.11	.09
Mortgages	1.02	.82	.75	.57	.58	.54	.52	.46	.43	.42
Policy loans	.84	.78	.80	.85	.93	.85	.89	.84	.83	1.00
Total	.39	.39	.43	.36	.34	.33	.37	.33	.34	.34

(1) These figures are based on the investment expenses reported by a small group of companies. There is very little variation from company to company except in the case of policy loans, where there are difference in the method of apportioning expenses.

Investment Income Earned By Some Canadian  
Gross Rates Of

[illegible]

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Approximate Investment Expenses in Canada NY  
Main Portfolio Companies (1)  
(As of the investment date)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total	39.39	43.36	34.33	37.33	33.34	33.37	33.34	34.34	34.34	34.34
Policy Loans	64.78	80.82	93.85	89.84	84.87	83.83	83.84	84.84	83.83	83.83
Mortgages	102.82	75.72	78.74	75.72	74.74	74.72	74.72	74.74	74.74	74.74
Securities	68.08	69.08	69.08	68.08	68.08	69.08	69.08	68.08	68.08	68.08

(1) These figures are based on the investment expenses reported by a small group of companies. There is very little variation from company to company except in the case of policy loans, where there are differences in the method of apportioning expenses.





The Effect of Mutualization on Investment Operations

5.56 In December, 1957, the Canadian and British Insurance Companies Act was amended to permit Canadian companies registered under the Act to mutualize by the purchase of their own shares. The Act states that after the necessary by-laws have been approved by shareholders and participating policyholders and sanctioned by the Treasury Board a company may institute a plan to purchase its own shares. A maximum period of five years following the year of purchase is allowed for writing down shares purchased to their par value. Mutualization is not completed until this has been done and the shares have been cancelled.

5.57 Five companies are in the process of mutualization. The companies had completed purchase of their shares by the end of 1961. No company has yet completed the write-down of its stock to par. Of the five companies, four do a large amount of business outside of Canada and have substantial non-Canadian assets. Part of the money used to purchase their stock has come from assets held out of Canada.

5.58 During the period 1958-61, cost of shares purchased under the mutualization program of the five companies was \$136 million against an increase in their world-wide assets, after deducting the book value of their own shares held, of \$913 million. These purchases represented only 14.9 per cent of their increase in assets.

5.59 During the same period total assets in Canada of federally-registered companies, after deducting the value of any shares held as a result of mutualization,



THE MUTUALIZATION OF INSURANCE COMPANIES

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5.58 During the period 1958-61, cost of shares purchased under the mutualization program of the five companies was \$156 million against an increase in their world-wide assets, after deducting the book value of their own shares held, of \$915 million. These purchases represent only 14.9 per cent of their increase in assets.

5.59 During the same period total assets in Canada of federally-registered companies, after deducting the value of any shares held as a result of mutualization,



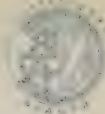
1 increased by approximately \$2 billion. It is evident,  
2 therefore, that the mutualization of the five companies  
3 did not withhold any significant amount from normal  
4 investment channels and if allowance is made for the  
5 reinvestment of the moneys received by the holders of  
6 the shares acquired, the net overall effect would be  
7 negligible.

8 5.60 Several mutual companies have operated in  
9 Canada for many years. There is no evidence to show  
10 that their investment policy, as a result of their  
11 being mutual, differs materially from that of the stock  
12 companies. It is not anticipated that additional mutual-  
13 ization of the industry will result in any change in the  
14 industry's investment policy.

15  
16 Holdings by Canadian and Non-Canadian Companies

17 561 Assets held in Canada by Canadian, British  
18 and other non-resident companies are set out in Table  
19 5.f for the year 1960. It should be noted that the  
20 assets of the non-resident companies are shown at market  
21 values while those of the Canadian companies are at  
22 book values.





Page 1

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Investment of funds in the form of shares in the companies, the law requires that the companies should not attempt to acquire or control other companies. Investment channels and if allowance is made for the reinvestment of the money received by the holders of the shares acquired, the net overall effect would be that their investment policy, as a result of their being mutual, differs materially from that of the stock companies. It is not anticipated that additional mutualization of the industry will result in any change in the

Holdings by Canadian and Non-Canadian Companies

Assets held in Canada by Canadian, British and other non-resident companies are set out in Table 2.1 for the year 1960. It should be noted that the assets of the non-resident companies are shown at market values while those of the Canadian companies are at book values.

Table 3.F

A.110

Life Insurance Assets\* Held in Canada by Federally-Registered Companies  
End of 1960

<u>Canadian Bonds</u>	<u>Canadian Companies</u>		<u>British Companies</u>		<u>United States and</u>	
	<u>(000,000)</u>	<u>%</u>	<u>(000,000)</u>	<u>%</u>	<u>Other Companies</u>	<u>(000,000) %</u>
Government of Canada	\$445	7.73	\$40	7.42	\$214	12.40
Provincial	384	6.70	62	11.50	80	4.64
Municipal	418	7.27	53	9.83	76	4.41
Corporate	1,045	18.20	101	18.74	837	48.52
<u>Foreign Bonds</u>	<u>18</u>	<u>.32</u>	<u>83</u>	<u>15.40</u>	<u>20</u>	<u>1.16</u>
<u>Total Bonds</u>	<u>2,310</u>	<u>40.22</u>	<u>339</u>	<u>62.89</u>	<u>1,227</u>	<u>71.13</u>
<u>Canadian Stocks</u>						
Preferred	15	.26	6	1.11	2	.11
Common	95	1.66	58	10.76	-	-
<u>Foreign Stocks</u>						
Preferred	-	-	-	-	-	-
Common	70	1.22	-	-	-	-
<u>Total Stocks</u>	<u>180</u>	<u>3.14</u>	<u>.64</u>	<u>11.87</u>	<u>2</u>	<u>.11</u>
Mortgage Loans**	2,536	44.17	104	19.30	370	21.45
Real Estate	265	4.62	13	2.41	7	.41
Policy Loans	260	4.53	10	1.86	74	4.29
Cash	30	.52	2	.37	17	.99
<u>Total Invested</u> <u>Assets</u>	<u>5,581</u>	<u>97.20</u>	<u>532</u>	<u>98.70</u>	<u>1,697</u>	<u>98.38</u>
Other Assets	161***	2.80	7	1.30	28	1.62
<u>Total Assets</u>	<u>5,742</u>	<u>100.00</u>	<u>539</u>	<u>100.00</u>	<u>1,725</u>	<u>100.00</u>

\* Canadian companies' assets are shown at book values, non-resident companies' assets at market values. Market values for Canadian companies' stocks are about double book values.

\*\* Includes agreements of sale.

\*\*\* Includes the mutualizing companies' holdings of their own shares in the amount of \$ 48.6 million.







5.62 United States life insurance companies had an additional \$2.4 billion invested in Canada on behalf of United States policyholders. These investments are shown in Table 5.g.

Table 5.g

Non-Trusteed Canadian Investments of United States Life Insurance Companies - End of 1960

(000,000)

Government of Canada bonds	\$ 100
Provincial bonds	370
Municipal bonds	470
Corporate bonds	1,160
Mortgage loans	300

---

\$2,400

---

Investment in Financial Intermediaries

5.63 The debt obligations and shares of other financial intermediaries provide an acceptable avenue of investment. Indeed, if it were not for the shares of the chartered banks the volume of investment-grade common stocks in Canada would be greatly reduced.

5.64 A survey of the 20 life insurance companies with the largest asset holdings in Canada was undertaken to determine their investment in other financial intermediaries. These other financial intermediaries were taken to include chartered banks, investment trusts, mutual funds, finance companies, credit societies and trust and loan companies.

5.65 The investment in bonds issued in Canada of such intermediaries by these 20 life insurance companies



5.62 United States life insurance companies had an additional \$2.4 billion invested in Canada on behalf of United States policyholders. These investments are shown in Table 5.6.

Table 5.6

Non-Insured Canadian Investments of United States Life Insurance Companies - End of 1963

(000,000)

Government of Canada bonds	\$ 100
Provincial bonds	270
Municipal bonds	470
Corporate bonds	1,160
Mortgage loans	300
	<hr/>
	\$2,400
	<hr/>

Investment in Financial Intermediaries

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to include chartered banks, investment trusts, mutual

funds, finance companies, credit societies and trust

and loan companies.

5.65 The investment in bonds issued in Canada of

such intermediaries by these 20 life insurance companies



1     amounted to \$278 million or less than 4 per cent of their  
2     assets. The book value of the common and preferred  
3     stocks of financial intermediaries held by the same  
4     companies amounted to \$38 million, while the market value  
5     of these securities was about twice as large. In any  
6     case, since the market value of outstanding Canadian bank  
7     stocks alone at the end of 1961 amounted to nearly \$2  
8     billion, it is evident that the share interest of life  
9     insurance companies in this field is relatively insignifi-  
10    cant.

11  
12    The "Voting" of Common Stock

13    5.66           Canadian life insurance companies seldom  
14    send a representative to shareholders' meetings of  
15    companies in which they have a common stock investment.  
16    In supervising their investments, however, some life  
17    insurance company investment officers may meet with the  
18    management of the companies in whose shares they have  
19    investments in order to ascertain company progress and  
20    prospects.

21    5.67           Most life companies follow the practice  
22    of "voting" their shares by proxy. It is usual for  
23    shares to be "voted" as requested by management. A  
24    survey of 17 of the largest life companies operating  
25    in Canada disclosed that during 1961 nearly 800 proxies  
26    for "voting" of common shares in Canadian corporations  
27    were received from the managements of those corporations  
28    and that 93 per cent were "voted" as requested and 7  
29    per cent were not "voted".

30    5.68           Canadian federally-registered life companies





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stocks of financial intermediaries held by the same  
companies amounted to \$38 million, while the market value  
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were received from the managements of those corporations  
and that 93 per cent were "voted" as requested and 7  
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Canadian federally-registered life companies



are forbidden by law from acquiring more than 30 per cent of the common stock of any one corporation. In the case of non-resident companies, this limitation applies only to assets vested in trust in Canada. Holdings by individual life companies usually constitute only a small percentage of a corporation's total stock. In only three cases did any one of the 17 life insurance companies surveyed hold more than 10 per cent of any corporation's stock outstanding at the end of 1961. The life insurance companies do not attempt to use their common stock holdings to exert influence over the management of other companies.

A COMPARISON OF THE INVESTMENT PRACTICES OF  
BRITISH, CANADIAN AND UNITED STATES LIFE INSURANCE  
COMPANIES

5.69 Marked differences of emphasis in certain categories of investment are evident from Table 5.h which compares the portfolios of British, Canadian and United States life insurance companies.

Table 5.h

World-wide Life Insurance Portfolios<sup>x</sup>  
of British, Canadian and United States Companies

	1959			1960		
	<u>Brit.</u>	<u>Can.</u>	<u>U.S.</u>	<u>Brit.</u>	<u>Can.</u>	<u>U.S.</u>
Bonds & Preferred Stocks	46.6	51.1	53.6	44.8	50.1	52.8
Common Stocks	20.6	3.7	2.7	21.9	3.8	2.8
Mortgages	15.4	36.8	36.1	16.0	37.5	36.5
Real Estate	10.0	3.4	3.4	10.1	3.4	3.3
Other Invested Assets	7.4	5.0	4.2	7.2	5.2	4.6

Sources: Britain - Reports of members of the British Insurance Association with Head Office in the United Kingdom.



are forbidden by law from acquiring more than 50 per cent of the common stock of any one corporation. In the case of non-resident companies, this limitation applies only to assets vested in trust in Canada. Holdings by individual life companies usually constitute only a small percentage of a corporation's total stock. In only three cases did any one of the 17 life insurance companies surveyed hold more than 10 per cent of any corporation's stock outstanding at the end of 1961. The life insurance companies do not attempt to use their common stock holdings to exert influence over the management of other companies.

# A COMPARISON OF THE INVESTMENT PRACTICES OF BRITISH, CANADIAN AND UNITED STATES LIFE INSURANCE COMPANIES

Marked differences of emphasis in certain categories of investment are evident from Table 5.1 which compares the portfolios of British, Canadian and United States life insurance companies.

Table 5.1

World-wide Life Insurance Portfolios\*  
of British, Canadian and United States Companies

	1960	1959	1958	1957	1956
Bonds & Preferred Stocks	46.6	51.1	53.6	44.8	50.1
Common Stocks	20.6	2.7	2.7	21.9	2.8
Mortgages	15.4	36.8	36.1	16.0	37.5
Real Estate	10.0	2.4	2.4	10.1	2.4
Other Invested Assets					





1 Canada - Annual Reports of the Superintendent of  
2 Insurance for Canada.

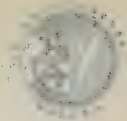
3 United States

- Life Insurance Association of America.

4 \* The valuation bases used in the three countries are  
5 not strictly comparable.

6 5.70 In each case bonds (including guaranteed  
7 or preferred stocks) account for approximately half of  
8 total invested assets. This recognizes the fact that  
9 life insurance policies contain built-in guarantees of  
10 capital and interest which require assets involving  
11 fixed income and a guarantee of capital.

12 5.71 Mortgages which are also regarded as suitable  
13 for life insurance investments amount on the average to  
14 nearly 37 per cent of the assets of the Canadian and  
15 United States companies, but to only 15 per cent or  
16 16 per cent of the British companies' assets. The reason  
17 for this would appear to be that the yield obtainable  
18 on mortgages in the United Kingdom is relatively less  
19 attractive. This has had the result of forcing insurance  
20 funds into equities and real estate where past experience  
21 indicates that great yields may be expected over the  
22 long term. In Great Britain also there is keen competition  
23 for mortgage business from the building societies which  
24 have no counterpart in Canada. These societies accept  
25 interest-bearing deposits which come largely from small  
26 investors and they invest these funds mainly in residential  
27 mortgages. The interest payable on the deposits and the  
28 mortgage interest are both subject to change at short  
29 notice and the result is to associate the yield on this  
30 type of mortgage investment with that of short-term



Canada - Annual Reports of the Superintendent of Insurance for Canada.

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type of mortgage investment with that of short-term



1 funds rather than to the long-term yield.

2 5.72 In Canada and in the United States, the yield  
3 on mortgages is traditionally associated with that on  
4 long-term bonds after allowance for the higher rate  
5 of investment expense. Government-insured and guaranteed  
6 mortgages in both countries have also accounted for a  
7 large volume of mortgage investment by the life  
8 insurance companies.

9 5.73 Real estate forms a small part of the portfolio  
10 of the Canadian and United States companies, but, in  
11 Great Britain, there has recently been a move by the  
12 larger companies in association with development companies  
13 to channel funds into real estate in the expectation that  
14 through the improvement and development of a site, a  
15 long-term high yielding investment will be created.

16 5.74 It is in common stock investment however  
17 that the main difference between British and Canadian  
18 or United States companies is apparent. The reason  
19 for the difference is discussed under three headings.

20 Legislation and Supervision by Government

21 5.75 In Great Britain there is an almost complete  
22 lack of restriction on the powers of investment. The  
23 only stipulation as regards the values at which assets  
24 appear in the balance sheet is that the balance sheet  
25 must state how the values of stock exchange securities  
26 are arrived at, and a certificate must be appended to  
27 the effect that the assets are in the aggregate dully  
28 of the value stated less any investment reserve fund.  
29 In practice stock exchange securities are usually valued  
30 in the aggregate at an amount not greater than their total





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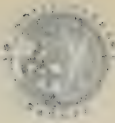
at an amount not greater than their book



1 market value and non-stock exchange securities are valued  
2 at cost. On the liabilities side, within the area of  
3 accepted actuarial principles the actuary of a company  
4 has freedom to fix, or vary from time to time, the  
5 interest rate basis of accumulation for the actuarial  
6 reserves. A fall in asset values resulting from higher  
7 market yields can be compensated for by applying higher  
8 interest rates to the basis for valuing the liabilities  
9 if the actuary so decides.

10 5.76 In Canada and the United States, on the other  
11 hand, strict supervision and legislative restriction in  
12 matters affecting investment powers and valuation of  
13 assets and liabilities. There is an upper limit to the  
14 amounts which may be invested in equities and there are  
15 qualitative tests for the eligibility of different  
16 stocks as investments. Valuation of market prices is  
17 required for most stock exchange securities, including  
18 common stocks, and minimum bases for the valuation of  
19 liabilities are laid down. Moreover - and this is a  
20 particularly important restrictive force - even within  
21 the scope of the statutory bases of valuation, there  
22 is little freedom to vary the basis for calculating  
23 actuarial reserves since guaranteed cash values are  
24 linked with the amounts of these reserves.

25 5.77 Market values of common stocks are subject  
26 to fairly wide fluctuations and within a rigid framework  
27 of restriction, prudence alone must induce a Canadian  
28 or United States company to limit its common stock  
29 investment so that a fall in market values will not  
30 seriously affect its surplus position.



market value and non-stock exchange securities are valued at cost. On the liabilities side, within the area of accepted actuarial principles the actuary of a company has freedom to fix, or vary from time to time, the interest rate basis of accumulation for the actuarial reserves. A fall in asset values resulting from higher market yields can be compensated for by applying higher interest rates to the basis for valuing the liabilities if the actuary so decides.

5.76 In Canada and the United States, on the other hand, strict supervision and legislative restriction in matters affecting investment powers and valuation of assets and liabilities. There is an upper limit to the amounts which may be invested in equities and there are qualitative tests for the eligibility of different stocks as investments. Valuation of market prices is required for most stock exchange securities, including common stocks, and minimum bases for the valuation of liabilities are laid down. Moreover - and this is a particularly important restrictive force - even within the scope of the statutory bases of valuation, there is little freedom to vary the basis for calculating actuarial reserves since guaranteed cash values are linked with the amounts of these reserves.

5.77 Market values of common stocks are subject to fairly wide fluctuations and within a rigid framework of restriction, prudence alone must induce a Canadian or United States company to limit its common stock investment so that a fall in market values will not seriously affect its surplus position.





1 Variation in Nature of Insurance Contracts

2 5.78 In the United Kingdom, because of the income  
3 tax relief allowed on life insurance premiums, the emphasis  
4 tends to be laid on endowment contracts rather than on  
5 whole life contracts. On both sides of the Atlantic  
6 there is a growing trend to term insurance, but this is  
7 more marked on the North American continent than it is,  
8 as yet, in the United Kingdom. Again, in the United  
9 Kingdom the amount of pension and annuity business trans-  
10 acted by insurance companies is possibly greater than  
11 in Canada and the United States where trust and other  
12 companies are particularly active in this field. As a  
13 result, in Great Britain there is a greater concentration  
14 on the savings element and less on the protective  
15 element in insurance contracts than is found in Canada  
16 and the United States. This has contributed to a greater  
17 preference for longer-term investments including common  
18 stocks.

19 5.79 The practice of declaring dividends in the  
20 form of reversionary additions to the sum assured, which  
21 is almost universal in the United Kingdom, also lends  
22 itself to the concept of long-term investment accumula-  
23 tion and the reserves built up for future bonus declar-  
24 ations may form a cushion against a temporary recession  
25 in market values.

26 5.80 It may also be noted that guaranteed cash  
27 values are not universally available in the United  
28 Kingdom and that policy holders' recourse to the cash  
29 values of policies is almost certainly much less than  
30 it is in North America. There is therefore a lesser



Insurance in the United Kingdom and the United States

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1 need for liquidity - or at least "marketability" - among  
2 the British companies.

3 Market Conditions

4 5.81 Both in the United Kingdom and United States,  
5 there is a wide market for equity stocks and, subject to  
6 the conditions and differences mentioned above, many  
7 life insurance companies in the United Kingdom and the  
8 United States are active purchasers in their respective  
9 markets. In addition, many Canadian companies are active  
10 purchasers in both markets.

11 5.82 However, the market in Canada for investment-  
12 grade shares is narrow. Many important Canadian companies  
13 are wholly-owned subsidiaries of non-resident corporations  
14 and there is a high degree of government ownership of  
15 utilities. Purchases by individuals, who have the  
16 benefit of the 20 per cent income tax credit, and by  
17 investment trusts - in both cases with investment  
18 objectives different from those of insurance companies -  
19 also tend to increase the price level and make these  
20 stocks less attractive to the insurance companies.

21 5.83 It would be wrong, of course, to deduce  
22 from this that life insurance companies are not active  
23 in the Canadian stock market. Some of the British  
24 companies doing business here are active purchasers up  
25 to the limits allowed by law. Some Canadian companies  
26 have been increasing their holdings. The new power  
27 to accumulate equities in segregated funds will doubtless  
28 contribute to increasing purchases of Canadian common  
29 stocks by the life insurance companies in Canada.  
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to accumulate equities in segregated funds will doubtless

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stocks by the life insurance companies in Canada.



THE ORGANIZATION OF THE INVESTMENT FUNCTION

5.84 The directors of a life insurance company are responsible for the administration of their company and for compliance with the insurance laws. They determine its general policy and appoint officers to conduct day-to-day operations and to give effect to the policies which they have laid down.

5.85 Directors are persons with wide business experience and sound judgment on whom policyholders and shareholders know they can rely to discharge their responsibilities. Most life insurance company directors are also directors of companies in other lines of business. In this way the widest possible knowledge and the ablest judgment are brought to the management of the individual companies in the service of their policyholders.

5.86 There is a considerable variation in the organization of the investment function of life insurance companies operating in Canada. Differences in the organization of the investment operation are partly dependent upon company size and whether the company is Canadian or has a head office abroad.

5.87 The board of directors, of course, carries the fundamental responsibility for all investment decisions. It reviews the general investment policy of the company, approves investment transactions, and grants authorities to facilitate the operation of the investment department. It usually establishes one or more investment or finance committees. These committees are often composed of board members with special knowledge



1110

THE INVESTMENT COMPANY ACT

Section 11. Duties of the directors.

are responsible for the administration of their company and for compliance with the insurance laws. They determine its general policy and appoint officers to conduct day-to-day operations and to give effect to the policies which they have laid down.

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experience and sound judgment on whom policyholders and shareholders know they can rely to discharge their responsibilities. Most life insurance company directors

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1 of investment matters and sometimes include the senior  
2 investment officer of the company who may himself be  
3 a director. Investment committees meet frequently and  
4 are responsible for formulating a company's investment  
5 policy. Before larger investment transactions are made,  
6 they usually must be approved by the investment committee.

7 5.88 Most companies have a senior officer, usually  
8 a vice-president, in charge of their investment operation.  
9 Some companies, however, favour the splitting of responsi-  
10 bility between two or more senior investment officers,  
11 each officer having responsibility for a certain area of  
12 operation, such as one for mortgage investments and  
13 one for security investments. Depending upon the size of  
14 the company there are often several investment officers,  
15 each in charge of a particular area or group of invest-  
16 ments, reporting to the senior investment officer or  
17 officers.

18 5.89 Canadian security investments are managed  
19 from the head offices of the companies. Mortgage  
20 investments are supervised from head office but the  
21 larger companies usually also have mortgage offices with  
22 local managers located across Canada.

23 5.90 It is in the area of the discretionary  
24 authority granted investment officers that there is  
25 probably the widest difference between companies. Some  
26 companies favour tight control with little independent  
27 authority given investment officers. Other companies,  
28 however, grant broad discretionary powers to their  
29 investment officers. Some mortgage branch managers  
30 are given no authority in the granting of loans without



of investment matters and sometimes include the senior investment officer of the company who may himself be a director. Investment committees meet frequently and are responsible for formulating a company's investment policy. Before larger investment transactions are made, they usually must be approved by the investment committee. Most companies have a senior officer, usually a vice-president, in charge of their investment operation. Some companies, however, favour the splitting of responsibility between two or more senior investment officers, each officer having responsibility for a certain kind of operation, such as one for mortgage investments and one for security investments. Depending upon the size of the company, there may be several investment officers, each in charge of a particular area or group of investments, reporting to the senior investment officer or officers.

5.89 Canadian security investments are managed from the head offices of the companies. Mortgage investments are supervised from head office but the larger companies usually also have mortgage offices with local managers located across Canada.

5.90 It is in the area of the discretionary authority granted investment officers that there is probably the widest difference between companies. Some companies favour tight control with little independent authority, grant broad discretionary powers to their investment officers. Some mortgage branch managers are given no authority in the granting of loans without



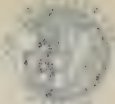
1 head office approval while other companies allow  
2 mortgage branch managers to make loans to a certain  
3 maximum on their own discretion.

4 5.91 Where an investment decision is taken  
5 depends upon its nature. Routine matters are often  
6 dealt with by the investment officers under authorities  
7 granted either by the boards or the investment committees.  
8 Non-routine matters and investments involving greater  
9 amounts of money often must proceed to an investment  
10 committee before action can be taken.

11 5.92 Some of the major non-Canadian companies  
12 operating here give considerable authority to their  
13 investment officers in Canada although major policy  
14 decisions and the approval of larger investments must  
15 often be made at head offices abroad. In the case of  
16 these companies, the Canadian investment departments  
17 are similar to those of Canadian companies and their  
18 operation often follows the same pattern.

19 5.93 Most companies place a high priority on the  
20 building and maintaining of highly skilled investment  
21 staff. In recent years the practice has been to recruit  
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SECTION 6

SOME VIEWS ON FISCAL AND MONETARY  
POLICY

---

OBJECTIVES OF ECONOMIC POLICY

6.1 There would seem to be fairly general agreement on the objectives of economic policy that should be sought by Canadians in fashioning their national policies. These objectives include:

- (a) The maintenance of a high level of employment and income for the productive members of the community.
- (b) The maintenance of reasonable price stability in the purchasing power of the dollar and defense of its external value.
- (c) The promotion of a sustained and sustainable rate of growth within the economy.
- (d) The provision of a basic floor and social welfare, as warranted by our ability to provide it, for the aged, widows and orphans, the permanently disabled and those temporarily unemployed.

6.2 It is generally agreed, too, that the fashioning of policies to these ends should take place within a society that recognizes the sovereignty of the individual and is organized so that the greatest possible freedom of choice - to work, to produce, to consume, to save and to progress - remains with the individual. Such a society derives real benefit from the initiative and self-reliance which it engenders amongst its citizens.



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BY THE HON. J. G. B. [Name]

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6.3 It must be recognized, however, that the fashioning of policies to achieve these objectives must take into account Canada's reliance on foreign trade. Performance will rarely be perfect because of the somewhat unpredictable effect of external influences on the domestic economy and because of the difficulties of keeping the various aspects of different policies continuously co-ordinated and in balance. Nevertheless, government should continuously strive for the co-ordination and balance which are so essential.

6.4 The Association believes there is nothing inconsistent in these long-run objectives. It believes they are possible of attainment or virtual attainment if Canadians have the wisdom, through their elected representatives, to make well-balanced choices and sound decisions in public policy. Actions designed for either the stimulation or restriction of the economy in the short run will undoubtedly be necessary from time to time to keep progress toward our objectives in harmony and in balance.

#### NEED FOR UNIFIED FINANCIAL POLICIES

6.5 Although the Commission has asked specifically for our views on the appropriate role for monetary policy and its limitations, we find it extremely difficult to regard any particular facet of national policy in isolation. In the financial sense it is particularly difficult to dissociate monetary policy from fiscal policy, debt management policy and exchange policy. When co-ordinated each derives strength from the others.



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1 When not co-ordinated, no one policy, and particularly  
2 monetary policy, can make up, at least for long, for  
3 any shortcomings in other policies.

4 6.6 Monetary policy we would define as that  
5 part of financial policy which is concerned with the  
6 volume of the supply of money, the control of credit  
7 through the banking system and its reflection on the  
8 level of interest rates. The other three integral  
9 parts of financial policy are:

10 (a) Debt management policy which is  
11 concerned with the ownership, interest cost  
12 and maturity structure of the federal debt.

13 (b) Fiscal policy which is concerned  
14 with taxation levels and sources, with  
15 expenditures and with the effects of cash  
16 surpluses or deficits.

17 (c) Exchange policy which is concerned  
18 with the external value of our dollar.

19 6.7 It follows then that financial policy must  
20 be co-ordinated within itself and in turn financial  
21 policy must be co-ordinated with other economic and  
22 social policies.

23 6.8 One major problem is that although there is  
24 a great volume of theoretical studies available as  
25 guidance for those charged with the formulation and  
26 execution of financial policy, there is only a  
27 relatively modest amount of actual experience. It is  
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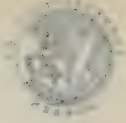
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2 and method, the potentialities of fiscal policy in  
3 countering economic fluctuations through cyclical  
4 budgeting began to be recognized. We have learned much  
5 but the record of these years would indicate that we  
6 have much yet to learn.

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8 RESPONSIBILITY FOR MONETARY POLICY

9  
10 6.9 The harmony and co-ordination to be desired  
11 in financial policy leads to the conclusion that govern-  
12 ment must accept ultimate responsibility for monetary  
13 policy just as it must for other parts of financial  
14 policy.

15 6.10 In saying this we stress the word "ultimate".  
16 The initiation and implementation of monetary policy  
17 should, in the first instance, be the responsibility  
18 of the management of the Bank of Canada and in the pursuit  
19 of its objectives in the monetary sphere it should be  
20 accorded wide latitude. The Association suggests that  
21 amendments to the Bank of Canada Act should make this  
22 abundantly clear.

23 6.11 If, at any time, the views of government and  
24 of the Governor differ on the appropriate monetary policy  
25 to be followed and such differences cannot be reconciled  
26 by discussion, then government views should be set forth  
27 in a directive to the Bank. If the Governor should then  
28 feel that such directive is not consistent with or  
29 compatible with the Bank's objectives under the Bank of  
30 Canada Act or with its own view of the developing  
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1 bringing differences of view and the reasons therefor  
2 to public attention. Such a brake on any unwarranted  
3 or questionable alternation in the volume of credit is  
4 a necessary safeguard against the possible abuse of the  
5 machinery of credit creation for political ends.

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7 ROLE OF MONETARY POLICY

8 6.12 There would appear to be two basic views  
9 as to the appropriate role for monetary policy. There  
10 are those who hold that the Bank of Canada should seek  
11 to carry out its monetary policy by varying the money  
12 supply, changing interest rate levels and influencing  
13 liquidity. This we would term the quantitative approach.  
14 There are others who feel that the Bank of Canada should  
15 be concerned directly with the allocation of resources and  
16 should attempt not only to determine the amount of credit  
17 but also how it is to be used. This we would term the  
18 qualitative approach. The Association subscribes to the  
19 former view, that is, the quantitative approach and to  
20 the extent that the operations of the capital market  
21 lead to distortion or result in an uneven or undesirable  
22 flow of funds to ultimate users, correctives should be  
23 applied by government rather than constituting them as  
24 the continuing task of the central bank.

25 6.13 Monetary policy thus becomes essentially  
26 the provision of a volume of money and credit adequate  
27 for the developing situation with due regard for the  
28 Bank's objectives. Monetary policy, then, working  
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1 of its operations on the levels of liquidity and interest  
2 rates to augment or dampen the rate of economic growth,  
3 to contribute to price stability and act as a balance  
4 wheel in regulating economic progress.

5 6.14 An important limitation on domestically  
6 initiated changes in interest rate levels is the impact  
7 such changes may have on international capital flows.  
8 Whether we like it or not, the Canadian financial market  
9 is oriented toward that of the United States, and  
10 Canadian monetary policy can be effective only within  
11 limits established in that market. Admittedly these  
12 limits may not be too restrictive because of parallel  
13 business cycles but any dissimilar monetary policy can  
14 lead to large-scale movements of short-term money. A  
15 "free" dollar or "floating" dollar offers some cushion  
16 that any given monetary policy will not be abortive  
17 or distorted but even variations in the exchange rate  
18 have desirable limitations. The recent move to "fix"  
19 the exchange rate of the Canadian dollar throws the  
20 weight of the adjustment on the reserves of the Exchange  
21 Fund and whatever help is forthcoming from the Inter-  
22 national Monetary Fund or external borrowings.

23 6.15 Although monetary policy is a flexible  
24 instrument, it is still general in its application and  
25 can never be a substitute, at least for long, for  
26 deficiencies in other financial, economic or social  
27 policies. In other words, it can never be an automatic  
28 cure-all for all the economic problems that confront  
29 the country or regions of the country from time to time.  
30 At best it can only hope to hold the fort temporarily,





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1 pending more basic changes in other policies designed  
2 to meet the problems and then assist during the period  
3 of transition.

4 6.16 Monetary policy must be continuously framed  
5 against the emerging situation. To the extent that all  
6 aspects of financial policy are co-ordinated, the  
7 initiation and implementation of monetary policy is  
8 made easier. To the extent that co-ordination does not  
9 take place, monetary policy itself can be warped by new  
10 government cash requirements for deficit financing,  
11 by refinancing or debt conversion or by the change in  
12 exchange reserves resulting from external pressures on  
13 the dollar. The result is that changes in money supply  
14 can be greater than would be desirable for monetary or  
15 economic reasons alone.

16 6.17 Monetary policy to be effective must also  
17 operate against a background of confidence - confidence  
18 in government policy in all its aspects as well as  
19 confidence in reasonable stability in the level of prices.  
20 Lack of confidence in financial policy is quickly felt  
21 in the financial markets and can stultify the best efforts  
22 of monetary management by making the market unresponsive  
23 to the changes in liquidity or interest rate levels which  
24 might normally be expected to flow from alterations in  
25 the volume of money.

26 6.18 We have indicated that monetary policy should  
27 work through a responsive capital market and responsive  
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1 free flow of funds through it, thus imparting a high  
2 degree of fluidity to the money flow and allowing a high  
3 degree of liquidity to the financial obligations.

4 6.19 Responsive financial intermediaries we would  
5 classify as those whose activities within their own  
6 frame of reference tend to follow and amplify monetary  
7 policy as it expresses itself through the levels of  
8 interest rates and the degree of liquidity.

9 6.20 Monetary policy is made effective, in the  
10 main, by the Bank of Canada through its so-called  
11 "open market operations", that is, its buying and selling  
12 of securities. In so doing, it varies the size of the  
13 deposits which the chartered banks must maintain with  
14 it and thus varies the total of chartered bank assets.  
15 An increase in these deposits allows an increase in  
16 chartered bank activities, while a decrease means a  
17 reduction in the moneys they have available.

18 6.21 Variations of this kind (because of the 8  
19 per cent reserve requirement) affect directly the  
20 availability of chartered bank commercial and other  
21 loans and their funds for security investment. Chartered  
22 bank activities in the lending field are always subject  
23 to competition from other lenders. In periods of  
24 restriction, however, they bear the brunt of monetary  
25 action in the first instance. Inability to lend  
26 immediately sends potential borrowers searching for  
27 alternative sources of credit. To the extent that such  
28 borrowers can obtain their requirements within the  
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1 factor which the monetary authorities must take into  
2 account. If immediate control of any particular  
3 allocation of funds is deemed necessary, it would seem  
4 preferable to attack the problem directly through  
5 temporary fiscal regulations or directives rather than  
6 attempt to bring other financial intermediaries under  
7 some form of continuing relationship with the central  
8 bank.

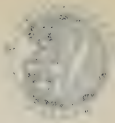
9  
10 EXTENSION OF DIRECT CONTROLS

11 6.22 The Association believes however that in  
12 peace-time at least, there is rarely a case for the  
13 extension of direct controls throughout the economy,  
14 unless there is a clear case of speculative or other  
15 excesses which are leading to an imprudent use of resources  
16 and which are clearly not in the public interest. If  
17 and when such a situation exists in a form not susceptible  
18 to control through the normal operations of monetary  
19 policy and the capital market, then such correctives  
20 should emanate from the Minister of Finance.

21 6.23 Direct controls of this character actually  
22 mean the allocation by government of the credit resources  
23 of the economy and substitute its judgment for the judgment  
24 of the many who participate in the capital market. Excesses  
25 of the type that need to be controlled by this means are  
26 invariably only symptoms of a deep-seated maladjustment.  
27 The direct control may alleviate the symptom but do  
28 nothing to cure the disease, and it is the disease that  
29 is important.

30 6.24 Direct controls also require detailed regulations  
and enforcement officers to curb pressures and evasions.





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1 They are malignant in character. They tend to grow  
2 on themselves - to plug loopholes and to provide for a  
3 myriad of special situations. In our view, direct  
4 controls of this nature should be used only as a last  
5 resort. They are no substitute under normal circumstances  
6 for the judgment and discipline of the market-place and  
7 in abnormal circumstances direct controls are only a  
8 palliative, not a cure.

9  
10 EXTENSION OF CONTROLS FOR THE PURPOSE  
OF ALLOCATING SAVINGS

11 6.25 Difficulties which may be experienced from  
12 time to time by certain potential borrowers or classes  
13 of borrower in obtaining funds through the capital  
14 market at what they may consider to be reasonable  
15 interest rates usually lead to suggestions that govern-  
16 mental authorities should impose, by legislation or  
17 otherwise, restrictions whereby financial intermediaries  
18 are required to invest a certain proportion of their  
19 funds in certain categories of investment. Such  
20 suggestions usually arise on behalf of a "social need"  
21 that is said to exist, such as that contained in housing  
22 finance and municipal loans or on behalf of a credit  
23 gap within the private sector, such as loans to small  
24 business and venture capital.

25 6.26 It is probably a truism that there is never  
26 a time when all borrowing "needs" can be met from the  
27 accrued and accruing savings of the nation. Under such  
28 circumstances, some method of establishing priorities  
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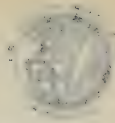


1 a method may have its imperfections, but it has never  
2 been established that the substitution of government  
3 direction for the multitude of decisions in the market-  
4 place would result in the establishment of more effective  
5 allocation.

6 6.27 If such restrictions or directions by  
7 government to financial intermediaries were to take the  
8 form of requiring, say, certain minimum amounts to be  
9 invested in any specific category of assets, government  
10 in effect guarantees to borrowers within that category  
11 a volume of funds for their purposes. To this extent  
12 at least, such borrowers and their needs are removed  
13 from examination in the market-place.

14 6.28 The funds, for example, which the life  
15 insurance companies have to invest are the voluntary  
16 savings of some nine million policyholders. The frame-  
17 work of rules and regulations to which they are subject  
18 in the insurance Acts has as its aim the safety of the  
19 investment or the limitation of economic power. Within  
20 this framework, the life insurance companies are free to  
21 maximize their investment return (with due regard for  
22 safety, of course) for their policyholders. The analysis  
23 of their assets shows the wide diversification of invest-  
24 ment both by category and by region achieved by the  
25 companies.

26 6.29 The life insurance companies can only invest  
27 the funds they are able to attract. Any regulation  
28 as to the minimum proportion of assets that must be  
29 placed in any one or more categories must reduce the  
30 amount of funds that can be made available for other



...which may have its imperfections, but it has never

...been established that the other

...the market for the securities

place would result in the establishment of more effective

6.27 It such restrictions or directions by

Government to financial intermediaries were to take the

form of requiring, say, certain minimum amounts to be

invested in any specific category of assets, Government

in effect guarantees to borrowers within that category

a volume of funds for their purposes. To this extent

at least, such borrowers and their needs are removed

from examination in the market-place.

6.28 The funds, for example, which the life

insurance companies have to invest are the voluntary

savings of some nine million policyholders. The frame-

work of rules and regulations to which they are subject

in the Insurance Acts has as its aim the safety of the

investment or the limitation of economic power. Within

this framework, the life insurance companies are free to

maximize their investment return (with due regard for

...the safety of the investment)

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ment both by category and by region achieved by the

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1 uses. Direction of this kind, too, is almost sure to  
2 lower the investment returns of those particular savers  
3 who choose to effect their saving through life insurance  
4 companies. In the long run, and depending on the  
5 severity of the ratios, such regulation would inhibit  
6 the life insurance companies in their competition for  
7 savings. In fact, once introduced, the danger would  
8 be in their gradual increase and extension to the point  
9 where personal savings to all intents and purposes would  
10 be controlled by government.

11 PUBLIC UNDERSTANDING DESIRABLE

12  
13 6.30 Confidence in financial policy including  
14 monetary policy is enhanced by public understanding and  
15 general agreement with its objectives and methods of  
16 achievement.

17 6.31 Fuller public understanding of the role of  
18 monetary policy itself is desirable but statements by  
19 the Bank of Canada should be confined as far as possible  
20 to the considerations involved in monetary policy and  
21 its implementation. It should give the fullest possible  
22 explanation of what it has done. The Bank should publish  
23 both monthly and weekly statistics and explanatory  
24 notes concerning the financial markets - the money supply,  
25 the condition of the chartered banks, an analysis of their  
26 general loans, the level of interest rates, the state of  
27 the federal debt and so on. Every effort should be made  
28 to make these as exhaustive as possible and to publish  
29 at the earliest moment. The Annual Report of the  
30 Governor, which is required to be transmitted to the





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1 Minister of Finance, should contain an analysis of the  
2 Bank's operations in the context of the economy generally.

3 6.32 The Bank's developing views and its intent  
4 should be constantly before its responsible Minister but  
5 public statements as to its intentions should only come  
6 at rare intervals, for example, when some change in  
7 operating procedure or some major change in policy  
8 direction is imminent. Other than this, it would seem to  
9 us that the Bank of Canada should be able to pursue its  
10 objectives in reasonable anonymity.

11 6.33 This is not to say that the central bank should  
12 always remain silent. Its right to be heard in the pursuit  
13 of its objectives should be respected and its duty to  
14 dissent under appropriate circumstances recognized.

15 DISCUSSION AND PERSUASION

16 ?./\$ One further method of promoting understanding  
17 of financial and monetary policy and assisting in its  
18 implementation is by private discussion by central bank  
19 management with interested groups. Discussions of this  
20 character with the chartered banks take place, we believe,  
21 at fairly regular intervals. Discussions with the money  
22 market dealers and others of the financial community  
23 undoubtedly occur from time to time. Some of these are  
24 initiated by the Bank itself and some by the interested  
25 groups. Discussions of this sort and a free exchange of  
26 views cannot help but be constructive and build the  
27 confidence of each in the other.

28 6.35 The life insurance companies have had on  
29 several occasions meetings with either the Minister of  
30 Finance or Bank of Canada officials. During the way, of



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1 course, there were several discussions regarding foreign  
2 exchange control and war finance; the latter helped  
3 to funnel into war loans virtually all the accruing cash  
4 resources of the companies. In March 1951 the  
5 Association's Special Committee on Inflation met with  
6 officials of the Bank of Canada. This was at the  
7 Special Committee's request. Discussion included the  
8 subject of the companies' investment in federal govern-  
9 ment bonds. Early in 1952 an arrangement was concluded  
10 with the then Governor for a monthly reporting of the  
11 Canadian investment transactions of twelve large  
12 companies. These began to be published in the Bank's  
13 Statistical Summary about three years later and have  
14 continued since. In 1958 there was a direct approach  
15 by the Minister of Finance to many of the companies as  
16 well as other representatives from the financial  
17 community in advance of the Conversion Loan.

18 6.36 These meetings and discussions were an  
19 effective means of communication and we believe useful  
20 at the time and in the context of events. In our  
21 opinion, they should continue to be contemplated when  
22 matters of importance arise. We believe, however, that  
23 they are most effective when conducted without any undue  
24 publicity.

25 RE-DISCOUNT RATE

26 6.37 The Association finds it difficult to believe  
27 that there is any great matter of principle involved  
28 in the prolonged public discussion concerning the  
29 relative merits of the "floating" re-discount and the  
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1 "stated" re-discount rate. Rather we would feel the  
2 method of setting the re-discount rate is basically  
3 an operating procedure and as such, whatever is decided  
4 upon, it should be placed in the position of being  
5 satisfactory to the central bank, to the chartered banks ;  
6 and to the financial community generally and thus removed  
7 from the area of contention. To the extent that changes  
8 in the re-discount rate can be made meaningful in terms  
9 of signalling changes in the direction of monetary  
10 policy, so much the better.

11  
12 PRICE STABILITY

13 6.38 For well over 100 years life insurance  
14 companies have been performing services of steadily  
15 increasing value for their policyholders and for the  
16 country. Consequently, they have had and continue to  
17 have an interest in all our national objectives and in  
18 our progress toward their achievement.

19 6.39 On behalf of their policyholders they have  
20 a particular interest in the maintenance of reasonable  
21 price stability. Life insurance contracts, whether owned  
22 basically for their protection features or for their  
23 accumulated savings values, are long-term contracts.  
24 Many years may elapse between the time of payment of the  
25 first premium and the payment of the last benefit. Thus  
26 maintenance of price stability or the avoidance of  
27 inflation is of prime importance to policyholders in the  
28 safeguarding of the values of their policies and the  
29 companies' control of operating costs on behalf of  
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1 6.40 Inflation is always a threat. The rise of  
2 prices following World War II has been of sufficiently  
3 recent experience and of sufficient magnitude to make  
4 everyone aware of its dangers and should strengthen our  
5 determination to avoid its repetition. The life insurance  
6 industry has made its views known on the importance of  
7 this subject on several occasions in recent years. The  
8 Association believes that it is highly important that  
9 the nation manage its affairs in such a way as to stop  
10 the almost continuous upward drift in the price level.

11 6.41 Concern about long-term stability in prices  
12 is not confined to the life insurance companies. Knowledge  
13 of economic phenomena is becoming more widespread.  
14 Greater numbers of citizens understand that inflation  
15 can wipe out their savings, wherever they are, just as  
16 effectively as prolonged unemployment. They understand  
17 that difficulties are created for many salaried workers  
18 and for all those living on pensions or on income from  
19 fixed-interest securities. They understand that rising  
20 prices reduce Canada's ability to sell in foreign markets  
21 which affects her export industries adversely.

22 6.42 The problem of inflation arises from an  
23 imbalance in economic affairs. Although it manifests  
24 itself as a monetary phenomenon in the sense of rising  
25 prices, its roots lie much deeper in the stream of  
26 economic activity and in the continuing maze of decisions  
27 made by citizens as individuals, as corporations and  
28 as governments. No ready cure is available. Just as  
29 causes are complex, so the problem of cure likewise  
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1 to time, so the attack at the problem may have varied  
2 emphasis. One thing is certain - just as combatting  
3 recession requires the use of a broad arsenal of weapons,  
4 so the combatting of inflation requires an equally broad  
5 attack, not only on the monetary front but also in fiscal  
6 matters and in economic policy generally as well as in  
7 individual and corporation affairs.

8 6.43 The first prerequisite is a desire - indeed  
9 a determination - on the part of government to place  
10 reasonable price stability along with a high level of  
11 employment and income as the two major objectives of  
12 public policy.

13 6.44 The second prerequisite should be a willing-  
14 ness to use all the paths which will advance the economy  
15 toward the goal of reasonable price stability - whether  
16 they be monetary or fiscal. Policies of restraint  
17 cannot be expected to be as popular as policies for  
18 reducing unemployment but from time to time as the  
19 economy ebbs and flows, will become equally necessary.  
20 Monetary policy which will always be in the forefront  
21 of restraint can never be sufficient of itself. Monetary  
22 policy at these times needs powerful support from fiscal  
23 policy.

24 6.45 The necessity of laying continuing stress  
25 on price stability is underlined by the reliance which  
26 must be placed in the economy on satisfactory and  
27 continuing debtor-creditor relationships, and on the  
28 continuous process of saving and debt formation. This  
29 requires the prior accumulation of savings on the one hand  
30 and their transfer through debt instruments to others.



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1 Government borrowings at all levels must take place  
2 through debt instruments. Most corporate and individual  
3 borrowing is in ~~fixed~~-dollar form. Any circumstances,  
4 such as inflation, which destroys confidence in the long-  
5 term purchasing power of the dollar will reduce savings,  
6 impede capital formation, place emphasis on liquidity,  
7 promote speculation and imperil the future sound growth  
8 of the economy.

9  
10 OLD AGE SECURITY

11 6.46 Certain aspects of fiscal policy, which  
12 reflect social policy, that could have their effect on  
13 the life insurance business are a compulsory medical  
14 care plan and an additional old age pension plan. Both  
15 will have an effect on the balance of government revenues  
16 and expenditures and the latter a particular effect on  
17 the capital market.

18 6.47 For example, the Old Age Security plan was  
19 established in 1952 with the support of all political  
20 parties and of many other interested groups, including  
21 the life insurance companies. It was designed to provide  
22 everyone with a basic income at age 70 - a floor on  
23 which the individual could build his own retirement  
24 program.

25 6.48 Canadians have shown their willingness to do  
26 this. Since 1952, membership in private pension plans  
27 has increased from 1 $\frac{1}{4}$  million to 2 million employees.  
28 More than three-quarters of all those engaged in industry  
29 are employed in establishments having pension plans. The  
30 growth of other private savings has also been vigorous.



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1 6.49 The present Old Age Security plan has  
2 many advantages. Because of its universal nature -  
3 \$65 a month to everyone - the plan helps most the low  
4 earner whose need is greatest. It is simple and inexpensive  
5 to administer and ensures the payment of the maximum  
6 benefit for each tax dollar collected for this purpose.

7 6.50 Since the current plan was begun ten years  
8 ago, the benefit has been increased on three on three  
9 occasions - from \$40 to \$65 - and has more than kept  
10 pace with increasing living costs. Changes in benefit  
11 are immediately reflected in payments to the recipients.

12 6.51 The operation of the plan has sharply reduced  
13 the proportion of Canadians over 70 who receive needs-tested  
14 assistance. This proportion is now 10 per cent as compared  
15 with 46 per cent in 1951.

16 6.52 The present \$65 monthly benefit is already  
17 more generous than the average pension under the United  
18 States Social Security system having regard to the lower  
19 income levels in Canada. Indeed, for married couples  
20 the Canadian benefit is relatively much larger because  
21 under the United States system married couples only  
22 receive  $1\frac{1}{2}$  times the single benefit.

23 6.53 The life insurance companies in Canada are  
24 concerned about the substantial commitments governments  
25 have already made in the welfare area. The expenditures  
26 involved are permanent and increasing. The proportion  
27 of national production used for these purposes has risen  
28 greatly in post-war years and additions to our present  
29 commitments cannot help but reduce the amounts available  
30 for other essential services.



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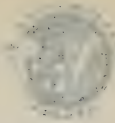
1 For these reasons we feel that Canada should not add  
2 a compulsory pension plan of any type to the present  
3 universal flat benefit plan.

4 6.55 Widespread interest in a pension plan of  
5 the United States Social Security type is evident.

6 Many Canadians misunderstand that program and feel that  
7 the amount each person contributes comes back to him in  
8 later years as retirement income. Contributions are  
9 therefore not looked upon as taxes. In actual practice,  
10 however, no government plan of which we are aware,  
11 including the United States plan, equates an individual's  
12 benefits to his contributions. Even if a government-  
13 operated plan tried to do so, irresistible pressures  
14 would arise to borrow from the funds required for future  
15 benefit payments in order to make current payments.

16 6.56 Under the United States Social Security  
17 program, pensioners are currently receiving income  
18 payments the value of which far exceeds the value of  
19 their accumulated contributions - this "subsidy" amounts  
20 to as much as \$22,000 in some individual cases. Further-  
21 more, these "subsidies" at present are larger for  
22 pensioners who had high earnings than for those who had  
23 low earnings.

24 6.57 While the benefits and contributions under  
25 the United States plan may appear today to be very  
26 attractive, a heavy share of the plan's cost is being  
27 deferred to future generations of taxpayers. The  
28 contribution rates are scheduled for a 50 per cent increase  
29 by 1968. This increase is necessary to maintain the level  
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1 effect with benefits at their present level many  
2 contributors and their employers may be paying more  
3 in the future for their pensions than they would have to  
4 pay for equivalent pensions through private plans. The  
5 solution to this dilemma might well be to increase the  
6 benefits under the government's plan and once again add  
7 heavy costs for future generations.

8 6.58 Because of its inherent weaknesses, we are  
9 opposed to the addition of a government-operated plan  
10 providing graduated benefits on top of the present  
11 universal Old Age Security plan.

12 6.59 There are, however, certain groups where a  
13 high proportion of members need assistance, for example:

14 (a) all persons unable to work because  
15 of permanent disability, and

16 (b) all widows with dependent children.

17 If additional expenditures are to be made in the field of  
18 social welfare, the life insurance companies feel that  
19 first priority should be given to such groups as these  
20 by extending to them the advantages of a program of flat,  
21 uniform, basic benefits as a matter of right.

22 6.60 As we have saidk we feel that no compulsory  
23 pension plan of any type should be added to the present  
24 universal plan. If, nevertheless, it is decided that  
25 one should be instituted we urge that it be administered  
26 entirely through existing facilities rather than by  
27 the government and that such a program should have the  
28 following features:

29 (a) A contributor should be forced to  
30 participate only up to a benefit level which





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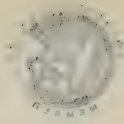


1 will make it unlikely that further government  
2 assistance will be necessary when he retires.

3 (b) Each contributor should receive  
4 the amount of benefit that can be purchased  
5 by his own and his employer's contributions -  
6 no more and no less. Any subsidies considered  
7 desirable as a welfare measure can be provided  
8 more satisfactorily by the present flat  
9 benefit plan and needs-tested supplements  
10 for two reasons. Firstly, it is extremely  
11 unlikely that any graduated benefit plan  
12 can be made to apply to everyone and most  
13 of the persons not covered will be among  
14 the least fortunate in the community. Secondly,  
15 in any government-operated graduated benefit  
16 plan it is likely that those with higher  
17 earnings will get the larger subsidies.

18 6.61 A plan with the characteristics we feel  
19 are desirable could be implemented by requiring employed  
20 groups to establish "portable" pension benefits of at  
21 least a certain level but the groups should be free to  
22 select the type of private pension plan best suited to  
23 their needs. The life insurance companies, trust  
24 companies and other administrators of pension plans  
25 have demonstrated their ability to serve the public on  
26 an efficient and economical basis. The continued use of  
27 these existing facilities would avoid the weaknesses of  
28 a government-operated plan and in addition would have  
29 the following important advantages:

30 (a) A fund would be accumulated for each



OFFICE OF THE SECRETARY  
DEPARTMENT OF LABOR  
WASHINGTON, D. C.

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(1) *Small business and labor*

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groups to establish "portable" pension benefits of at

least a certain level but the groups should be free to

select the type of private pension plan best suited to

their needs. The plan should be designed so that

companies and other administrators of pension plans

have demonstrated their ability to serve the public on

an efficient and economical basis. The continued use of

these existing facilities would avoid the weaknesses of

a government-operated plan and in addition would have

the following important advantages:

(a) A fund would be accumulated for each





*Nethercut & Young*

*Toronto, Ontario*

*A.1444*

1 contributor, to ensure payment of the  
2 benefits promised him. The interest earnings  
3 on these funds become substantial and help  
4 appreciably to pay for the benefits. This  
5 is in marked contrast to government-operated  
6 plans where contributions are paid out for  
7 current benefits and where, as a consequence,  
8 there is little saving and a correspondingly  
9 small interest income.

10 (b) The use of existing facilities would  
11 ensure the continued growth of the pension  
12 assets in private plans. The investment  
13 of these assets is a powerful factor in financing  
14 Canada's growing economy, helping to create  
15 job opportunities and developing our natural  
16 resources, our industrial capacity, our housing  
17 and our municipal and other services.



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SOME VIEWS ON THE CAPITAL MARKET

7.1 Progress toward a country's economic objectives in a society like ours is both dependent on and facilitated by a well-developed capital market. Such a market grows as a country matures and, indeed, the degree of development of such a market can almost be said to be an indication of that country's maturity.

7.2 A well-developed capital market should be one that can provide a fairly continuous volume of trading in the different categories of financial obligations with their differing credit-worthiness and varying maturities. It should exhibit a high degree of sensitivity not only to the yields obtainable on these obligations but also to the relative yields as between the different obligations. This sensitivity should result from the factors of supply and demand as they exist from time to time or as they are made to exist through monetary influence. Such a market should also contain as few barriers or hindrances as possible to the free flow of funds throughout it, thus allowing the greatest freedom for interest rates to reflect the changing pressures of supply and demand.

7.3 The capital market in Canada has been growing and is becoming more fully developed over the years. Many deficiencies have been progressively overcome. For example, mention can be made of the growth of a short-term money market in the last seven years. The volume of government and corporate bond financing is further evidence of the market's development as is the volume



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that should exhibit a high degree of marketability. It should not only to the yields obtainable on these obligations but also to the relative yields as between the different obligations. This sensitivity should result from the factors of supply and demand as they exist from time to time or as they are made to exist through monetary influence. Such a market should also contain as few barriers or hindrances as possible to the free flow of funds throughout it, thus allowing the greatest freedom for interest rates to reflect the changing pressures of supply and demand.

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1 of shares traded on our stock exchanges.

2 7.4 The capital market in Canada, however, has  
3 not reached full development yet by any means. Certain  
4 categories of financial assets, such as mortgages for  
5 example, have so far attained a lesser degree of liquidity  
6 in Canada than in some other countries and yields on  
7 such assets are not as responsive as they will undoubtedly  
8 become with further growth. Development of a capital  
9 market is, basically, an evolutionary process.

10 7.5 The Association feels, however, that the  
11 Canadian capital market today under normal circumstances  
12 is reasonably responsive to changing supply-demand  
13 relationships. Normal circumstances, of course, assume  
14 circumstances which do not exhibit any untoward fear of  
15 inflation on the one hand or any untoward fear of  
16 recession and deterioration of credit-worthiness on the  
17 other. Both of these conditions produce distortions.  
18 The Association also feels that the capital market is  
19 sufficiently broad, sufficiently flexible and sufficiently  
20 cohesive to allow a monetary policy to be reasonably  
21 effective.

22 7.6 That is not to say that further development  
23 cannot take place. There are, in the Association's view,  
24 certain improvements in procedure that might prove  
25 beneficial and certain areas where access to the capital  
26 market might be improved. It offers the following  
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29 THE BOND MARKET

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2 in the distribution and trading in bonds. The  
3 Association does not believe that at the present time  
4 the size of the Canadian market is such that the services  
5 of either the so-called "bond jobber" or the formation  
6 of a bond exchange would be particularly useful. The  
7 post-war growth of the Canadian economy has produced  
8 a higher volume of savings and an increasing demand for  
9 funds by both governments and industry. This has made  
10 for a much broader market and through it many debt  
11 obligations trade frequently and in considerable volume  
12 in response to changes and expectations of changes in  
13 yield. This is particularly true of the market for  
14 federal government bonds in which, of course, the Bank of  
15 Canada has a pre-eminent interest as a means of effecting  
16 its policy through open-market operations.

17 7.8 Since the war, too, the size and scope of  
18 the market for provincial bonds has increased significantly.  
19 At present many outstanding provincial or provincial-  
20 guaranteed issues trade in sufficient volume and frequency  
21 to allow fairly firm and up-to-date quotations for  
22 reasonable size to be given at any time. Unlike the  
23 market in federal government bonds, however, the provincial  
24 market, as with the corporate and municipal bond markets,  
25 is conducted primarily through the investment dealers  
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27 7.9 Many corporate bond issues do not trade  
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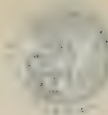


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2 which many corporations finance their expansion through  
3 the capital market. Under such conditions quotations  
4 cannot be regularly made and often can only be  
5 obtained when specific purchase or sale is proposed.  
6 This is particularly true, as well, of the market for  
7 all but the larger municipal bond issues. This is only  
8 to be expected. Continued growth of the economy will  
9 undoubtedly result in a still broader capital market  
10 and with increased public financing by corporations  
11 and municipalities, a more active market in these issues  
12 will follow.

13 7.10 With particular reference to new bond issues,  
14 a prime objective of the investment dealer should be  
15 to ensure prompt and full distribution. Institutional  
16 demand today constitutes a large percentage of effective  
17 demand for many bond issues and from time to time many  
18 life insurance companies have difficulty in obtaining  
19 from the dealers or syndicates as large a participation  
20 as they might wish in the first instance. They suggest  
21 that some consideration be given to the provision of  
22 information of the details of a new issue and of the  
23 borrower further in advance of the offering date and,  
24 after offering, they feel a prompt delivery date would  
25 assist in early and complete distribution.

26 7.11 The life insurance companies, traditionally,  
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12 is the only effective way of adding the additional credit  
13 to allow access to the capital market. Care must be  
14 exercised, however, that such sponsorship through the  
15 provision of easier credit does not lead to the  
16 accumulation of municipal debts which will prove too  
17 burdensome to repay.

#### 18 THE STOCK MARKET

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20 7.12 The life insurance companies have found  
21 the facilities for trading in stocks through the members  
22 of the stock exchanges in Canada to be quite adequate,  
23 although the size of the market in investment-grade  
24 shares is not nearly as great as might be desired. There  
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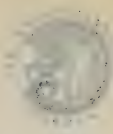




1 7.13 The growth and development of Canadian  
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4 The petroleum and natural gas industries are two examples  
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7 the number of quality-grade Canadian equities which  
8 institutional investors may find attractive. From this  
9 point of view it is unfortunate that so much of  
10 Canadian industry is foreign-owned and so many utility  
11 and transportation companies have had their shares paid  
12 off as they have been converted to government ownership.  
13 Another difficulty is that large proportions of the  
14 relatively narrow list of stocks of investment grade  
15 that are available tend to be put away in investment  
16 portfolios, thus reducing the prevailing supply still  
17 further.

18 7.14 The larger companies in the Association's  
19 membership again find some difficulty from time to time  
20 in dealing in large blocks (namely, multiple board  
21 lots). This is essentially a matter of size and may  
22 disappear if both the number and volume of shares of  
23 investment-grade equity issues expands.

24 7.15 To the life insurance companies investment-  
25 grade common stocks are those which either have or will  
26 shortly have a seven-year dividend history as required  
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28 venture capital. Small new and high-risk companies have  
29 difficulty in raising both debt and equity capital.  
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1 supplied many such firms with financing mostly with  
2 debt capital although it is understood that some  
3 participation in equity has been taken.  
4 7.16 The financing of new business today requires  
5 an amount of money that few investors care to place on  
6 one risk. A practical method of accomplishing the purpose,  
7 however, might be the formation of a development corpor-  
8 ation which would be in turn financed by a large group  
9 of investors. This represents one method of obtaining  
10 a spread of risk through group participation that would  
11 be impossible of attainment by any one investor. Such  
12 a development corporation would be able to provide many  
13 small firms with both debt and equity capital and even  
14 assist in the provision of counsel. This would make a  
15 constructive contribution. Such development corporations  
16 would assist in the future growth of Canadian secondary  
17 manufacturing and service industry.

18 THE MORTGAGE MARKET  
19

20 7.17 The mortgage market in Canada is effective  
21 in the sense of bringing lenders and borrowers together  
22 but as yet cannot be said to impart any real degree of  
23 liquidity to mortgage investments. As a consequence,  
24 changes in mortgage interest rates both conventional  
25 and H.H.A. tend to lag behind changes in interest rates  
26 of more highly liquid investments. Nevertheless, the  
27 monthly payments which characterize most mortgages today  
28 have in fact greatly enhanced the liquidity of this type  
29 of investment, to which the large annual flow of regular  
30 repayments attests.





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21 Housing programs of the magnitude desired have resulted  
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12 This procedure could prohibit a widespread and efficient  
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15 7.22 N.H.A. mortgage insurance has gone a long  
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17 It reduces the inherent risk factors to a minimum and  
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1 He can be subjected to retarding action by the borrower  
2 by subsequent encumbrances, by statutory delays designed  
3 to afford grace to the borrower and by delays in pursuing  
4 the action through the courts. Enactment of moratoria  
5 legislation can prevent the commencement and completion  
6 of mortgage actions and the effect of any debt adjustment  
7 legislation is not covered. Also, the insurance only  
8 partially covers the legal costs involved in acquiring  
9 title and possession. All these factors militate against  
10 imparting a high degree of liquidity to these mortgage  
11 instruments.

12 7.23 There have been a few sales of blocks of  
13 both conventional and insured mortgages from one insurance  
14 company to another by direct negotiation and a large  
15 number of sales of insured mortgages by banks to other  
16 buyers, chiefly pension funds. The successive sale of  
17 blocks of N.H.A. mortgages by Central Mortgage and  
18 Housing Corporation at auction is broadening the bank of  
19 investors and is helping to create the base from which  
20 a secondary mortgage market can develop.

21 7.24 In the United States there is a well developed  
22 "mortgage banking system", the members of which act as  
23 originators and servicers for permanent investors in  
24 connection with Federal Housing Administration and  
25 Veterans' Administration insured loans. The existence  
26 of these specialists facilitates the sale of mortgages  
27 from one investor to another and increases liquidity  
28 in this form of investment. These packages of mortgages  
29 are bought and sold at par or at premiums and discounts  
30 thus providing yields to investors that vary from the



can be subjected to retarding action by the borrower by subsequent encumbrances, by statutory delays designed to afford grace to the borrower and by delays in pursuing the action through the courts. Enactment of mortgagor legislation can prevent the commencement and completion of mortgage actions and the effect of any debt adjustment legislation is not covered. Also, the insurance only partially covers the legal costs involved in securing title and possession. All these factors militate against imparting a high degree of liquidity to these mortgages.

There have been a few sales of blocks of both conventional and insured mortgages from one insurance company to another by direct negotiation and a large number of sales of insured mortgages by banks to other buyers, chiefly pension funds. The successive sale of blocks of N.H.A. mortgages by General Mortgage and Housing Corporation at auction is broadening the rank of investors and is helping to create the base from which a secondary mortgage market can develop.

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1 stated interest rate, similar to that which occurs in  
2 the bond market. This too creates a higher degree of  
3 responsiveness to changing interest rate levels.

4 7.25 The volume of mortgage credit in the housing  
5 fields forthcoming from sources of private savings will  
6 vary in relation to the condition of the housing market.  
7 Emphasis on residential construction for the sake of its  
8 contribution to the total of capital investment in the  
9 economy will undoubtedly lead to periods when supply  
10 outruns demand. In many areas today, for example, there  
11 would appear to be significant vacancy ratios and some  
12 unsold houses. Such periods of indigestion lead to a  
13 diminished supply of mortgage credit.

14 7.26 There have been suggestions over the years  
15 that N.H.A. mortgage insurance be made to apply to loans  
16 on existing houses. It is said that this would broaden  
17 the market for new houses and bring about a more economic  
18 use of existing space by allowing older occupants of larger  
19 houses to acquire other and smaller houses more in line  
20 with their reduced space requirements. It would also  
21 to some degree reduce the demand for second mortgage  
22 money with its large bonuses, high interest rates and  
23 other charges. On the other hand, the extension of N.H.A.  
24 insured loans to existing houses would not necessarily  
25 ensure that more new houses would be built. In fact,  
26 it could make less money available from private sources  
27 to finance new houses and thus might require more federal  
28 funds rather than less to maintain any desired volume of  
29 new house construction. Also, it would have the effect of  
30 monetizing or making liquid a large volume of past savings



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1 and appreciation in values from recent inflationary  
2 price rises and there is little or no guarantee that  
3 such savings would be directed into equity in other housing.  
4 Much of it could find its way into current expenditure  
5 and thus result in a large volume of dissaving. Further  
6 liberalization of mortgage terms on existing housing  
7 would likely operate to raise the price of those existing  
8 houses.

9 7.27 If such a course were to be adopted, in order  
10 to avoid abuses and to confine it to "housing" in the true  
11 sense of the word, it would be essential that the  
12 legislation limit the availability of the insured mortgage  
13 loan on existing houses to the bona fide purchaser of a  
14 single house who intends to reside in it. The lending  
15 value, too, must recognize fully the age of the house,  
16 its location, its physical condition and its remaining  
17 economic life. These factors should lead to the  
18 consideration of a maximum loan, of not more than 80  
19 per cent, and to shorter amortization periods.

20 REAL ESTATE MARKET

21  
22 7.28 The life insurance companies, while not large  
23 factors in the real estate market, believe that in  
24 Canada it is reasonably well developed through existing  
25 realtors and real estate boards. Acquisition and sale  
26 of real properties does not present any particular  
27 problems.

28 PARTICIPATION IN THE UNDERWRITING FIELD

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1 role of the life insurance companies in the capital  
2 market is that of investors. That does not mean to say,  
3 however, that it may not be appropriate for them on  
4 occasion to extend into the field of underwriting  
5 securities jointly with investment dealers for subsequent  
6 distribution. In the British market, for example, the  
7 life insurance companies are active in this capacity.

8  
9 DIRECT PLACEMENTS

10 7.30 Essentially, any financing which does not  
11 involve a public offering or distribution may be consider-  
12 ed to be directly placed. This applies particularly to  
13 corporate debt issues which are sold through negotiation  
14 directly to one investor or a small group of investors  
15 in a non-public sale.

16 7.31 This method of placement has been more widely  
17 used in the United States than in Canada. A survey of  
18 28 United States life insurance companies that account  
19 for 85 per cent of the corporate bond holdings of all  
20 United States life insurance companies shows that in each  
21 year since 1950 90 per cent of corporate bonds acquired  
22 have been by way of direct placements. At the end of  
23 1960 74 per cent of corporate bonds held were classified  
24 as direct placements.

25 7.32 No corresponding data are available for Canada  
26 but it appears unlikely that anything more than one-third  
27 of life insurance companies' purchases of Canadian  
28 corporate bonds have been directly placed during the  
29 1950's.

30 7.33 One reason why the level of so-called direct



Company Name

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1 placements is so much higher in the United States stems  
2 from the effect of the Securities Act of 1933. The  
3 requirement of this Act that public issues be registered  
4 with all the attendant costs and delays involved in  
5 registration is a strong inducement to finance by way  
6 of direct sale. That direct sales have not reached similar  
7 proportions in Canada is no doubt due in part to fewer  
8 and less onerous regulations and in part to the fact  
9 that many of the Canadian life insurance companies appear  
10 to trade more extensively than their United States  
11 counterparts, thus affording some preference for public  
12 issues.

13 7.34 There are savings through direct placement  
14 in the cost of financing to the borrower, particularly  
15 in the case of smaller issues and smaller companies.  
16 There is also considerable flexibility in setting the  
17 terms of borrowing. Direct placements can be tailored  
18 to individual requirements and subsequently changed much  
19 more easily, if circumstances so require. Such issues  
20 often require much less time in negotiation. Statistical  
21 information is not made public and the take-down of funds  
22 can be arranged to conform more readily with the require-  
23 ments of the borrower.

24 7.35 On the other hand, the directly placed issue  
25 definitely lacks marketability. As a result, the interest  
26 cost to the borrower may be somewhat higher and restrictive  
27 clauses somewhat stiffer. Also, from the borrower's  
28 point of view, if its financial statistics are already  
29 public knowledge, there is frequently some advantage  
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1 rather than by a few large investors.

2 FULLER FINANCIAL INFORMATION

3  
4 7.36 Institutional investors, of course, are  
5 interested in obtaining on a regular and continuing  
6 basis the fullest financial information possible. Over  
7 the years such information concerning corporations has  
8 greatly improved but there is room for further improve-  
9 ment. The Association believes, however, that pressure  
10 of public opinion rather than legislation should be  
11 relied on in the main to effect this improvement.

12 7.37 The Association suggests, however, that it  
13 would be helpful if the chartered banks would release  
14 through the regular weekly Bank of Canada statement  
15 a breakdown of "general loans". As a minimum it is  
16 suggested that this breakdown should show separately any  
17 changes in amounts of loans outstanding for business  
18 purposes and for consumer credit.

19 7.38 With regard to government bodies, the amount  
20 of statistical and financial information made available  
21 has also been improving and at present is large and  
22 comprehensive. Although some gaps continue to exist  
23 the real problem is that of competent analysis of the  
24 information available. Here again the Association feels  
25 that further improvement will come from evolution as  
26 continuing studies are made.

27 RELATIVE POSITION OF THE LIFE INSURANCE COMPANIES

28  
29 7.39 The life insurance companies and other  
30 collectors of savings have always had to compete with





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### WAYS TO IMPROVE THE LIFE INSURANCE INDUSTRY

7.39 The life insurance companies and other investors of savings have always had to compete with



1 the numero s channels of consumer spending such as  
2 automobiles, television sets, refrigerators, washing  
3 machines and many other goods and services of a more  
4 tangible and immediate nature. Savings contracts generally  
5 have always had to be "sold" and this is particularly  
6 true of life insurance. For this purpose the life  
7 insurance companies have maintained an active group  
8 of field representatives.

9 7.40 The life insurance companies, of course,  
10 have been in active competition with the other financial  
11 intermediaries for the savings dollars. The record shows  
12 that over the years they have developed the largest  
13 volume of private savings although in the last decade  
14 some other financial intermediaries have been growing  
15 at a faster rate. Available information on the amounts  
16 of these savings is set out in Table 7.a.

17 7.41 The life insurance companies have had one  
18 distinct advantage in that they are the only industry  
19 empowered to integrate the risk of mortality with the  
20 accumulation of savings. However, life insurance  
21 contracts are usually long-term contracts and in the main  
22 are expressed in fixed-dollar amounts. Periods of price  
23 instability and particularly periods of inflation have  
24 inhibited them in competition for the available savings.  
25 During such periods the empahsis on the purchase of  
26 life insurance contracts swings away from the plans  
27 which have a high savings element to those which provide  
28 the higher degree of protection. This slows the flow  
29 of policyholder saving to the companies. At such times,  
30 contracts providing fixed guarantees lose some of their



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life insurance contracts swings away from the plans  
which have a high savings element to those which provide  
the higher degree of protection. This shows the flow  
of participation away to the companies. At such times,  
the savings element in the insurance contracts is small.





1 attraction and a larger proportion of saving is diverted  
2 to the purchase of equities either directly or through  
3 mutual funds and investment trusts.

4 7.42 The more recent growth of investment companies  
5 and mutual funds is in part attributable to the fear  
6 engendered by post-war inflation and erosion in the  
7 purchasing power of the dollar. The same considerations  
8 have influenced the growth of trustee and self-administered  
9 pension plans as vehicles for the accumulation of  
10 savings through partial or complete investment of such  
11 funds in equities, at a time when this avenue was closed  
12 to the life insurance companies. Legislation in 1961,  
13 however, has enabled the life insurance companies to offer  
14 this facility through segregated funds.

15 7.43 Years ago it was deemed desirable to supervise  
16 life insurance companies in the public interest. This  
17 supervision has helped to ensure solvency and has enhanced  
18 their ability to meet their future obligations. With  
19 regard to pension plans which are not administered by  
20 life insurance companies, the Association feels that they  
21 are equally long-term, that their activities and  
22 particularly their continuing solvency is equally important,  
23 and that in the public interest such funds should be  
24 brought under government supervision of a somewhat  
25 similar character and purpose to that of the life  
26 insurance companies. With regard to Registered Retirement  
27 Savings Plans for individuals, section 79B of the Income  
28 Tax Act makes provision for accumulation and the ultimate  
29 purchase of a life annuity. These, too, are long-term  
30 contracts, and the Association believes that in the public



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purchasing power of the dollar. The same considerations

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Tax Act makes provision for accumulation and the various

TABLE 7.a  
Assets of Major Saving-Type Institutions in Canada

End of Year	Life Insurance Companies (1)	Charter Banks (Personal Savings)	Trusteed Pensions	Total Assets (\$'000,000 omitted)					Govt. Annuities	Quebec Savings Banks
				Canada Savings Bonds	Trust Cos.	Invest. Cos.	Credit Unions	Mortgage Loan Cos.		
1950	4,076	4,176	n.a.	1,218	399	n.a.	312	n.a.	620	204
1951	4,320	4,296	n.a.	1,194	414	n.a.	359	378	676	205
1952	4,613	4,600	n.a.	1,250	432	225	424	404	737	218
1953	4,957	4,756	n.a.	1,632	440	244	489	436	798	226
1954	5,335	5,218	n.a.	2,090	588	n.a.	552	502	865	243
1955	5,724	5,633	n.a.	2,433	666	n.a.	653	559	930	265
1956	6,154	6,007	1,999	2,541	692	n.a.	761	600	989	273
1957	6,681	6,108(2)	2,460	2,469	728	n.a.	852	641	1,048	286
1958	7,142	6,844	2,791	2,895	902	550	1,009	714	1,106	303
1959	7,699	6,900	3,200	3,212	999	751	1,158	784	1,157	298
1960	8,260	7,215	3,616	3,594	1,210	900	1,299	860	1,199	311
1961 est.	8,900	7,618	4,000	4,083	1,350	1,150	1,450	940	1,236	325
Annual Changes in Assets (\$'000,000 omitted)										
1951	245	120		24	15		47		56	1
1952	293	304		56	18		65	26	61	13
1953	344	156		382	8	19	65	32	61	8
1954	378	462		458	148		63	66	67	17
1955	389	415		343	78		101	57	65	22
1956	430	374		108	26		108	41	59	8
1957	527	101(2)	461	108	360		91	41	59	13
1958	461	736	331	246	174		157	73	58	17
1959	557	56	409	317	97	201	149	70	51	-5
1960	561	315	416	382	211	149	141	76	42	13
1961 est.	640	403	400	489	150	250	150	80	37	15

(1) Life insurance assets held in Canada, federally-registered and provincial companies (provincial companies' assets estimated for 1951-1953).

(2) \$140 million transferred out of personal savings classification.







1 interest vehicles through which individual accumulation  
2 under "registered" retirement savings plans takes place  
3 should be the subject of certain minimum government  
4 standards of supervision.

5 7.44 The conditions which will allow the life  
6 insurance companies to continue to make a maximum  
7 contribution toward the accumulation of savings and  
8 their constructive employment in the Canadian economy  
9 are:

10 (a) Stability in the purchasing  
11 power of the dollar and the encouragement  
12 and preservation of savings.

13 (b) An economic climate favourable  
14 to growth in the economy and a level of  
15 taxation which does not discourage saving.

16 (c) A social and political climate  
17 favourable to private individual and group  
18 action in providing for personal financial  
19 security.

20 (d) A basic floor of security as  
21 warranted by our ability to provide it for  
22 the aged, widows and orphans, the permanently  
23 disabled and those temporarily unemployed.

24 (e) Consistent protection of property  
25 rights under law, to ensure stability and  
26 confidence in financial obligations.

27 (f) General freedom and flexibility  
28 in investment within a minimum of statutory  
29 limitations to make possible implementation  
30 of long-term guarantees.



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(b) An economic climate favourable to growth in the economy and a level of taxation which does not discourage savings.

(c) A social and political climate favourable to private individual and group action in providing for personal financial

(d) A basic floor of security as warranted by our ability to provide it for the aged, widows and orphans, the permanently disabled and those temporarily unemployed.

(e) Constantest protection of property rights under law, to ensure security and confidence in financial obligations.

(f) General freedom and flexibility in investment within a minimum of statutory limitations to make possible implementation of long-term programmes.





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A.165

(g) Sound domestic environment within  
which all life insurance companies can  
operate for the benefit of Canadians and  
which also will facilitate effective operation  
of Canadian companies abroad.



1910

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(c) 1910

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APPENDIX 1

Member Companies

The Canadian Life Insurance Officers  
Association

Canadian

The Acadia Life Insurance Company

Aeterna-Life Mutual Assurance Company

Alliance Mutual Life Insurance Company

British Pacific Life Insurance Company

The Canada Life Assurance Company

Canadian Premier Life Insurance Company

Canadian reassurance Company

The Commercial Life Assurance Company of Canada

Confederation Life Association

The Continental Life Insurance Company

Co-operative Life Insurance Company

The Crown Life Insurance Company

Desjardins Mutual Life Assurance Company

The Dominion Life Assurance Company

The Dominion of Canada General Insurance Company

The T. Eaton Life Assurance Company

L'Economie Mutuelle d'Assurance

The Empire Life Insurance Company

The Equitable Life Insurance Company of Canada

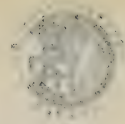
The Excelsior Life Insurance Company.

Fidelity Life Assurance Company

Global Life Insurance Company

The Great-West Life Assurance Company





APPENDIX I

Member Companies

The Canadian Life Insurance Officers  
Association

Companies

The Family Life Insurance Company

Imperial Life Assurance Company

Alliance Mutual Life Insurance Company

British Pacific Life Insurance Company

The Canada Life Assurance Company

Canadian Premier Life Insurance Company

Canadian Reinsurance Company

The Commercial Life Assurance Company of Canada

Continental Life Insurance Company

The Continental Life Insurance Company

Co-operative Life Insurance Company

The Crown Life Insurance Company

Dejardin's Mutual Life Assurance Company

The Dominion Life Assurance Company

The Dominion of Canada General Insurance Company

The T. Eaton Life Assurance Company

L'Economique Mutuelle d'Assurance

The Empire Life Insurance Company

The Equitable Life Insurance Company of Canada

The Excelsior Life Insurance Company

Flamingo Life Insurance Company

Local Life Insurance Company

The Great-West Life Assurance Company

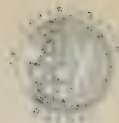


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*Toronto, Ontario*

A.167

- 1 The Imperial Life Assurance Company of Canada
- 2 The Industrial Life Insurance Company
- 3
- 4 The Laurentide Life Assurance Company
- 5 The Life Insurance Company of Alberta
- 6 The London Life Insurance Company
- 7 The Manufacturers Life Insurance Company
- 8 The Maritime Life Assurance Company
- 9
- 10 The Monarch Life Assurance Company
- 11 Montreal Life Insurance Company
- 12 The Mutual Life Assurance Company of Canada
- 13 La Mutuelle-Vie de l'U.C.C.
- 14 The National Life Assurance Company of Canada
- 15
- 16 North American Life Assurance Company
- 17 The Northern Life Assurance Company of Canada
- 18 Les Prevoyants du Canada
- 19 The Provident Assurance Company
- 20 The Quebec Mutual Life Assurance Company
- 21
- 22 La Sauvegarde Life Insurance Company
- 23 La Solidarite Life Assurance Company
- 24 The Sovereign Life Assurance Company
- 25 Sun Life Assurance Company of Canada
- 26 La Survivance Mutual Life Assurance Company
- 27
- 28 Toronto Mutual Life Insurance Company
- 29 Union of Commerce Mutual Life Insurance Company
- 30 The Union Life
- 31 The Wawanesa Mutual Life Insurance Company
- 32 The Western Life Assurance Company



The Imperial Life Assurance Company of Canada

The Laurens Life Assurance Company

The Manufacturers Life Insurance Company

The Monarch Life Assurance Company

The Mutual Life Assurance Company of Canada

La Mutuelle-Vie de l'U.C.C.

La Sauvegarde Life Insurance Company

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1 British

2 Commercial Union Assurance Company Limited  
3 Co-operative Insurance Society Limited  
4 The London Assurance  
5 London and Scottish Assurance Corporation, Limited  
6 The Mercantile and General Reinsurance Company Limited  
7  
8 The Mutual Life and Citizens' Assurance Company Limited  
9 The Norwich Union Life Insurance Society  
10 Pearl Assurance Company, Limited  
11 Phoenix Assurance Company Limited  
12 The Prudential Assurance Company Limited (of England)  
13  
14 Royal Insurance Company, Limited  
15 The Standard Life Assurance Company  
16 The Victory Insurance Company Limited

16 Dutch

17 Holland Life Insurance Society Limited  
18

19 German

20 Concordia Life Insurance Company  
21 Munich Reinsurance Company  
22

23 United States

24 Aetna Life Insurance Company  
25 Bankers Life Company  
26 Business Men's Assurance Company of America  
27 Connecticut General Life Insurance Company  
28 Continental Assurance Company  
29 Cuna Mutual Insurance Society  
30 The Equitable Life Assurance Society of the U.S.



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British

Commercial Union Assurance Company Limited

Co-operative Insurance Society Limited

The London Assurance

London and Lancashire Assurance Corporation Limited

The Mercantile and General Reinsurance Company Limited

The Mutual Life and Citizens' Assurance Company Limited

The Norwich Union Life Insurance Society

Northampton Assurance Company Limited

Northampton Assurance Company Limited

The Norwich Union Life Insurance Society

Northampton Assurance Company Limited

The Standard Life Assurance Company

The Victory Insurance Company Limited

Dutch

Holland Life Insurance Society Limited

German

German Life Insurance Society

North German Insurance Company

United States

Aetna Life Insurance Company

Commercial Union Assurance Company

Equitable Life Assurance Society of America

German Life Insurance Society

North German Insurance Company

North German Insurance Company

The Equitable Life Assurance Society of the U.S.



*Nethercut & Young*

*Toronto, Ontario*

A.169

- 1 Federal Life and Casualty Company
- 2 Hartford Life Insurance Company
- 3 John Hancock Mutual Life Insurance Company
- 4 The Lincoln National Life Insurance Company
- 5 Loyal Protective Life Insurance Company
- 6 Massachusetts Mutual Life Insurance Company
- 7 Metropolitan Life Insurance Company
- 8 The Ministers Life and Casualty Union
- 9
- 10 The Minnesota Mutual Life Insurance Company
- 11 The Mutual Life Insurance Company of New York
- 12 New England Mutual Life Insurance Company
- 13 New York Life Insurance Company
- 14 North American Life and Casualty Company
- 15
- 16 North American Reassurance Company
- 17 Occidental Life Insurance Company of California
- 18 Old Republic Life Insurance Company
- 19 Pacific Mutual Life Insurance Company
- 20 The Paul Revere Life Insurance Company
- 21 Presbyterian Ministers' Fund
- 22 Provident Life and Accident Insurance Company
- 23 The Prudential Insurance Company of America
- 24 State Farm Life Insurance Company
- 25 State Mutual Life Assurance Company of America
- 26
- 27 The Travelers Insurance Company
- 28 Union Mutual Life Insurance Company
- 29 United Benefit Life Insurance Company
- 30 Washington National Insurance Company





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Federal Life and Casualty Company  
John Hancock Mutual Life Insurance Company  
Massachusetts Mutual Life Insurance Company  
Metropolitan Life Insurance Company  
The Minsters Life and Casualty Union  
The Minnesota Mutual Life Insurance Company  
The Mutual Life Insurance Company of New York  
New England Mutual Life Insurance Company  
New York Life Insurance Company  
North American Life and Casualty Company  
Occidental Life Insurance Company of California  
Old Republic Life Insurance Company  
Pacific Mutual Life Insurance Company  
The Paul Revere Life Insurance Company  
Provident Life and Accident Insurance Company  
The Prudential Insurance Company of America  
State Farm Life Insurance Company  
State Mutual Life Assurance Company of America  
Union Mutual Life Insurance Company  
United Benefit Life Insurance Company



APPENDIX 2

Special Committee

Appointed to Prepare a Submission to the  
Royal Commission on Banking and Finance

Chairman - J.T. Bryden  
North American

Members -

A.H. Lemmon, Canada  
P.S. Bower, Great-West  
A.R. Poyntz, Imperial  
S.E. Brock, Industrial  
R.H. Reid, London  
G.L. Holmes, Manufacturers  
G.R. Berry, Metropolitan  
E.A. Rieder, Mutual of Canada  
J.A. Rhind, National  
J.J. Wilson, Prudential of America  
G.T. Westwater, Standard  
E.R. Alexander, Sun

Secretary - F.C. Dimock  
C.L.I.O.A.

Officers of the Association

1962-63

President - E.A. Rieder, The Mutual Life Assurance  
Company of Canada

First Vice  
President - B.T. Holmes, Confederation Life  
Association

Second Vice  
President - H.L. Sharpe, The Northern Life  
Assurance Company of Canada

Honorary  
Treasurer - M.K. Kenny, The Excelsior Life Insurance  
Company

Past President - J.T. Bryden, North American Life  
Assurance Company

302 Bay Street John A. Tuck, Q.C.,  
Toronto, Canada Managing Director & General  
Counsel.

ANNEX 2

Special Committee

Report of the Special Committee to the  
Royal Commission on Banking and Finance

Chairman - J.T. Bryden  
North American

Members -

W.H. Brown, General  
J.H. Brown, Industrial  
A.L. Brown, Industrial  
J.E. Brown, Industrial  
J.H. Brown, Industrial  
J.H. Brown, Industrial  
G.R. Berry, Metropolitan  
E.A. Rieder, Mutual of Canada  
J.A. Smith, Mutual  
J.J. Wilson, Prudential of America  
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Assurance Company





APPENDIX 3

Note re Tables 4.a and 4.b on Estimated Life Insurance  
Saving in Canada

The original concept of life insurance saving was developed by Simon A. Goldberg, Assistant Dominion Statistician, in his doctoral thesis for Harvard University. Basically, life insurance saving is defined as receipts in Canada minus disbursements in Canada. For details, see the publication of the Dominion Bureau of Statistics entitled "National Accounts, Income and Expenditure, Preliminary, 1949", page 13 et seq.

The series for 1954 - 1960 has been calculated by The Canadian Life Insurance Officers Association largely on Dr. Goldberg's model.

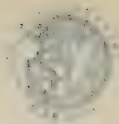
Certain calculations involve arbitrary breakdowns:

For Canadian federally-registered companies:

The following methods are used to estimate in-Canada figures where no actual figures are available:

(1) Considerations for settlement annuities are split on the ratio of settlement annuities effected in Canada to total settlement annuities effected.

(2) Deposits left with the companies are split on the mean of (a) the ratio of dividends left on deposit in Canada to total dividends left on deposit and (b) the ratio of the liability for accumulated amounts on deposits in Canada to the liability for total amounts on deposit.



Note re Tables A.1 and A.2 on Estimated Life Insurance  
Savings in Canada

The original concept of life insurance saving was developed by Simon A. Goldberg, Assistant Dominion Statistician, in his doctoral thesis for Harvard University. Basically, life insurance saving is defined as receipts in Canada minus disbursements in Canada. For details, see the publication of the Dominion Bureau of Statistics entitled "National Accounts, Income and Expenditure, Preliminary, 1949", page 15 et seq. The series for 1954 - 1960 has been calculated by The Canadian Life Insurance Officers Association largely on Dr. Goldberg's model. Certain calculations involve arbitrary

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are split on the basis of (a) the ratio of dividends left on deposit in Canada to total dividends left on deposit and (b) the ratio of the liability for accumulated amounts on deposits in Canada to the liability for total amounts on deposit.



(3) Investment income and expenses are split on the ratio of actuarial reserves in Canada to total actuarial reserves.

(4) Payments under settlement annuities are split on the ratio of settlement annuities in force in Canada to total settlement annuities in force.

(5) Staff welfare expenses are split on the actuarial reserve ratio (see 3). Other expenses are split on the ratio of sales and business in force in Canada to total sales and business in force with sales weighted ten-fold.

For Provincial companies:

Expenses are calculated as a fixed percentage of premium income. This percentage is based on a detailed analysis of the 1958 operations of 11 provincial companies.

For Non-Canadian companies:

An arbitrary 10 per cent is added to expenses reported in respect of Canadian operations as "head office expense" on the following ground: The companies' Canadian annual statements do not include some or all head office expenses but the premiums charged in Canada presumably do. Therefore, it is argued, the saving of Canadian policyholders would be over-stated if an allowance for these head office expenses were not made. No reverse allowance is made in respect of the business outside Canada of the Canadian companies.



## (3) Investment income and expenses

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## (4) Payments under settlement annuities

are split on the ratio of settlement annuities in force in Canada to total settlement annuities

## (5) Staff welfare expenses are split

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allowance for these head office expenses were not made.

No reverse allowance is made in respect of the business









